



REPORT ON ACTIVITIES
OF BANK HANDLOWY W WARSZAWIE S.A.
AND THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
IN 2016

MARCH 2017

In accordance with § 83 item 7 of the Ordinance of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions for regarding information required by the law of non-member state as equivalent dated 19 February 2009 (Journal of Laws of 2014, item 133, as amended), report on activities of the Bank and the Group was prepared in the single report. The information in the report refer to the Group (including the Bank) or only to the Bank as specified in the individual chapters, tables or descriptions.

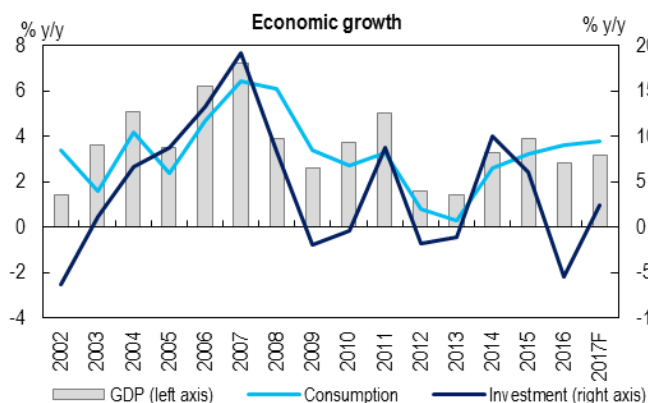
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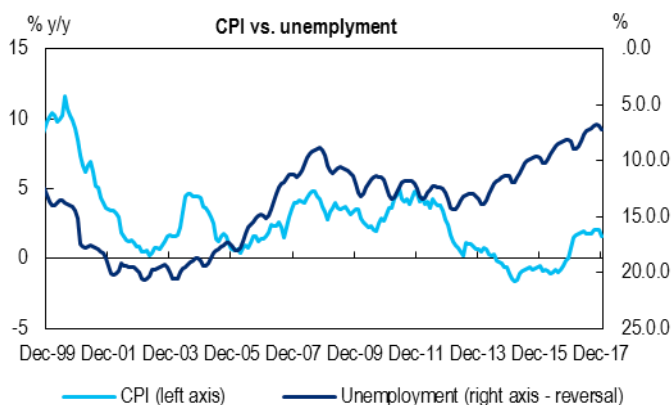
I. Poland's economy in 2016

1. Main macroeconomic trends



Source: Chief Statistical Office, Citi Handlowy forecast

Labor market conditions further improved and the unemployment rate declined to 8.3% at the end of 2016 compared to 9.8% at the end of 2015. Demand for labor remained solid, which contributed to an acceleration in nominal wage growth to 4.1% y/y (from 3.5%) and an acceleration in employment growth to 2.9% (from 1.1%). The number of new job offers per unemployed person rose to record high levels. Labor shortage and wage pressure indices rose to the highest levels for several years. Apart from labor market conditions, consumption was supported by cash transfers to households under the 500+ child allowance program.



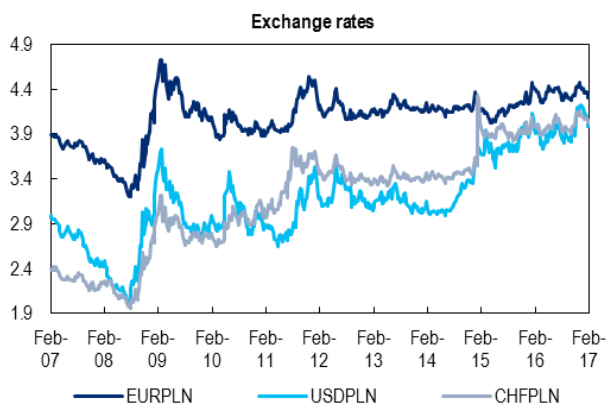
Source: Chief Statistical Office, own calculations

According to the data prepared by the Central Statistical Office, gross domestic product increased in 2016 by 2.8% y/y as against 3.9% y/y in 2015. Economic growth gradually slowed down in the first three quarters, surprising on the downside. Domestic demand remained the main growth driver, particularly household consumption, which increased by 3.6% y/y compared with 3.2% y/y in 2015. At the same time, however, last year saw a significant decline in investments by 5.5% y/y as against an increase of 6.1% in 2015. Foreign trade had a slight positive impact on the GDP, although trade did slow down and major trading partners experienced relatively stable GDP growth. The Polish economy still benefited from very low oil prices on the global markets. The relatively weak Polish zloty still provided support for exports.

Prices of consumer goods and services in 2016 declined by 0.6% y/y on average after a decrease of 0.9% y/y in 2015. The main factor underlying the persistent deflation in Poland was the decline in fuel prices by 7.5% y/y, similarly as in the previous year. Additionally, declines in energy prices and prices in the healthcare, communications, leisure and culture categories contributed to deflation. Despite the strong household consumption and improving conditions on the labor market, the demand-driven pressure on price growth was very limited. Thus, inflation remained well below the inflation target set by the Monetary Policy Council.

Despite the fact that deflation persisted for almost the entire year and also despite the gradual economic slowdown, the Monetary Policy Council decided to keep interest rates at a record low level of 1.5%.

2. Money and forex



Source: Bloomberg

In 2016, the Polish zloty depreciated by ca. 3% against the euro and by ca. 7% against the U.S. dollar. The prospect of rate increases by the U.S. Federal Reserve Bank (Fed) contributed to the outflow of capital from emerging markets, leading to a temporarily increased volatility on the financial markets. At the same time, reduced appetite for risk was observed before the Brexit vote and before the U.S. presidential elections. Emerging market currencies clearly weakened, especially against the U.S. dollar, in response to election results in the United States and the anticipated changes in economic policy.

As a result of those developments, during the year the EUR/PLN rate rose from 4.42 to 4.26 while the USD/PLN increased by 7% from 4.18 to 3.90 and the CHF/PLN one rose by 5% to 4.12.

Money market rates remained relatively stable in 2016. WIBOR 3M stood at 1.73% at the end of the year against 1.72% at the end of 2015. After a clear decline at the beginning of the year, yields of 2-year bonds remained in an upward trend, supported by a gradual pickup in inflation. By the end of the year, 2-year yields rose to 2.04% from 1.62%. The yield

on 10-year bonds rose to 2.94% from 3.63%, also as a result of global factors such as capital outflows from emerging markets in response to the outcome of the U.S. presidential election.

3. Capital market

2016 was a year of growth in the Polish stock market. The favorable climate primarily reflected the price recovery in global commodity markets. Additionally, the improvement in the domestic stock market (particularly in the SME segment) was related to the announced plan concerning revisions to the pension system – the consequences of the changes appear to be significantly less negative for the capital market in Poland than originally expected. The banks' shares were also buoyed by the publication of a less restrictive draft Act on foreign currency loans. On the other hand, the growth would be more pronounced were it not for the surprising result of the referendum on Great Britain's continued presence in the EU in the second quarter and the deterioration in sentiment towards domestic energy companies as a result of the introduction of measures that were unfavorable to minority shareholders (e.g. announcements of increases in the par value of shares, no declarations concerning the level of dividends to be paid).

Within the last 12 months, all major indices advanced. The WIG broad market index gained 11.4%. Mid-caps made very solid gains with mWIG40 advancing by 18.2%. The performance of blue chips was relatively weaker – they gained 4.8%. Among sector subindices, the commodity sector index stood out, gaining 79.7% y/y. High rates of return were also achieved by IT and fuel sector companies at 33.7% and 26.9% respectively. The largest decreases in relation to the level at the end of 2015 were suffered by companies from the chemical (-16.4%) and energy (-12.9%) industries.

In the last year, shares of 19 new companies were listed on the main market of the WSE (including 7 transferred from the New Connect alternative market). The total value of new listings exceeded PLN 994 million (as against PLN 1.94 billion in the previous year), of which PLN 459 million was due to new issuances. Meanwhile, shares of 19 companies were delisted. At the end of 2016, 487 companies were traded on the WSE, including 53 foreign ones. Total market capitalization increased slightly by 3.0% y/y to PLN 1,12 billion, of which domestic companies accounted for 49.9%.

Stock market indices, as at 31 December 2016

| Index | 2016 | Change (%) | 2015 | Change (%) | 2014 |
|---------------------------|-----------|------------|-----------|------------|-----------|
| WIG | 51,754.03 | 11.4% | 46,467.38 | (9.6%) | 51,416.08 |
| WIG-PL | 52,583.91 | 10.9% | 47,412.44 | (10.2%) | 52,805.46 |
| WIG-div | 1,039.29 | 8.4% | 958.66 | (16.8%) | 1,151.73 |
| WIG20 | 1,947.92 | 4.8% | 1,859.15 | (19.7%) | 2,315.94 |
| WIG20TR | 3,296.32 | 7.9% | 3,054.29 | (17.0%) | 3,680.89 |
| WIG30 | 2,243.30 | 8.1% | 2,075.51 | (16.6%) | 2,487.52 |
| mWIG40 | 4,215.54 | 18.2% | 3,567.05 | 2.4% | 3,483.45 |
| sWIG80 | 14,259.47 | 7.9% | 13,211.23 | 9.1% | 12,108.06 |
| Sector sub-indices | | | | | |
| WIG-Banki | 6,263.33 | 2.9% | 6,086.60 | (23.5%) | 7,960.97 |
| WIG-Budownictwo | 2,857.41 | (2.4%) | 2,926.28 | 36.5% | 2,143.29 |
| WIG-Chemia | 13,755.90 | (16.4%) | 16,458.51 | 44.6% | 11,383.76 |
| WIG-Deweloperzy | 1,829.06 | 20.9% | 1,513.35 | 12.9% | 1,340.47 |
| WIG-Energia | 2,551.21 | (12.9%) | 2,928.40 | (31.4%) | 4,268.12 |
| WIG-Informatyka | 2,155.40 | 33.7% | 1,611.73 | 16.2% | 1,386.48 |
| WIG-Media | 4,561.93 | 15.7% | 3,942.07 | 2.6% | 3,840.32 |
| WIG-Paliwa | 5,668.84 | 26.9% | 4,468.32 | 32.2% | 3,381.16 |
| WIG-Spożywczy | 4,154.32 | 21.4% | 3,420.99 | 38.6% | 2,468.65 |
| WIG-Surowce | 3,516.44 | 79.7% | 1,956.85 | (43.8%) | 3,481.62 |
| WIG-Telekomunikacja | 730.02 | (9.6%) | 807.99 | (12.6%) | 924.52 |

Source: WSE, Dom Maklerski Banku Handlowego S.A.

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2016

| | 2016 | Change (%) | 2015 | Change (%) | 2014 |
|--------------------------|---------|------------|---------|------------|---------|
| Shares (PLN million)* | 405,585 | (10.0%) | 450,574 | (3.3%) | 465,730 |
| Bonds (PLN million) | 2,851 | 57.7% | 1,808 | (8.8%) | 1,983 |
| Futures ('000 contracts) | 15,195 | (0.9%) | 15,334 | (14.8%) | 18,004 |
| Options ('000 contracts) | 754 | (13.9%) | 876 | (8.6%) | 958 |

Source: WSE, Dom Maklerski Banku Handlowego S.A., * including session and block transactions.

The domestic stock market recorded a decline in investment activity for the third year in a row. In 2016, the turnover in equities contracted by 10.0% y/y to PLN 405.6 billion.

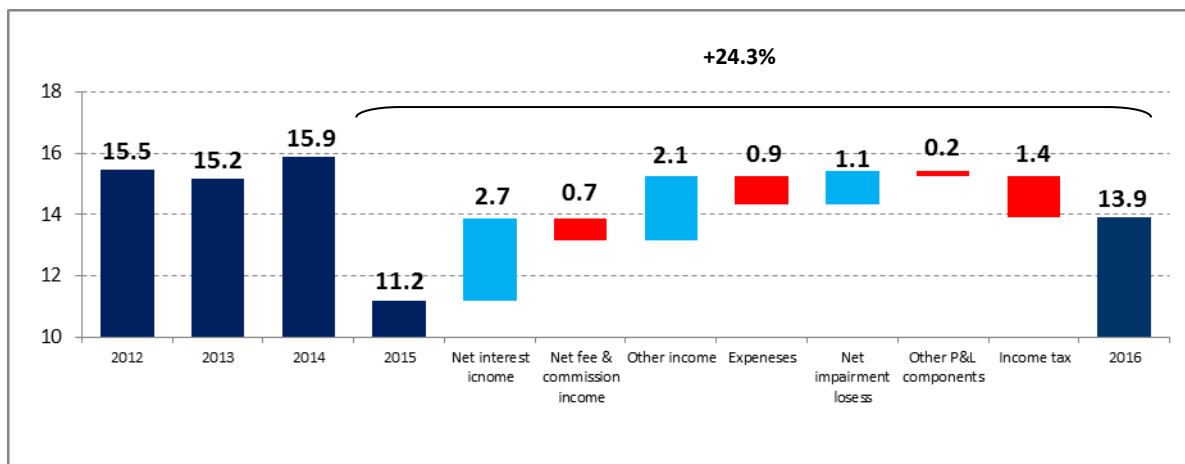
Conversely, there was a significant improvement in turnover in the debt securities segment. Compared to 2015, bond turnover grew by 57.7% and reached PLN 2.6 billion.

The volume of futures traded in the market decreased slightly by 0.9% to 15.2 million units.

Options also attracted less interest compared to 2015. The volume of trading in these instruments decreased by 13.9% y/y to 754,000 units.

4. Banking sector

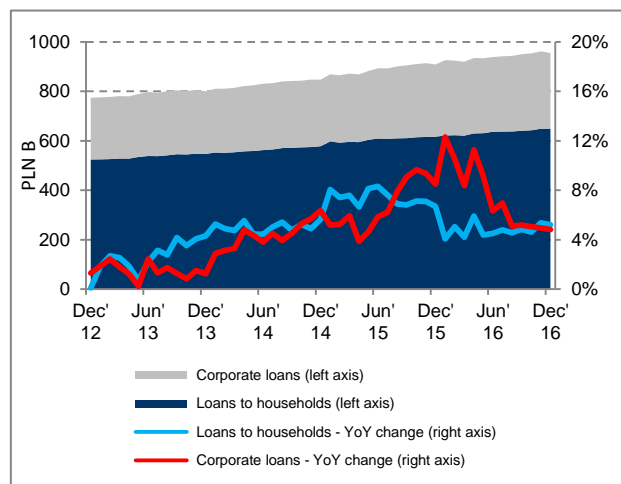
Net profit of the banking sector (PLN billion)



Source: Polish FSA, own calculations

According to PFSA figures, net profit of the banking sector in 2016 grew by about 24.3% (PLN 2.7 billion) compared to the last year, to the level of PLN 13.9 billion which is better than the previous year's result but still worse than the results achieved by banks from 2011 to 2015. The increase in net income was mainly driven by the improvement in the banks' net interest income (+7.6% y/y, PLN 2.7 billion) achieved through an increase in lending and reducing the cost of financing. Of significant importance for improving the result of the banking sector was also the increase in other income by 25.1% y/y (PLN 2.1 billion), which was primarily the result of the settlement of the acquisition of Visa Europe by Visa Inc. in June 2016. Polish banks posted income in excess of PLN 2 billion as a result of this transaction. Net fee and commission income, which was weaker than in the previous year (-5.4% y/y at PLN 722 million), had a negative impact on the results of the sector. As a result, the total income of the banking sector increased by PLN 4.1 billion to PLN 61.2 billion. Higher income was accompanied by higher operating costs (+2.8% y/y at PLN 943 million). The rapid increase of the net result was also caused by the one-time cost in excess of PLN 2 billion incurred in the fourth quarter of 2015 due to the need to make additional contributions to the Bank Guarantee Fund as a result of the bankruptcy of a co-operative bank. The efficiency of the sector as measured by the cost/income ratio improved. The ratio fell from 59% in 2015 to 56% in 2016. Net impairment write-downs were reduced by 11.7% y/y (PLN 1.1 billion), and a clear improvement in the quality of the loan portfolio was recorded as determined by the NPL ratio (by -0.4 p.p. y/y to 6.4%). The most important improvement was noted for the portfolio of corporate loans for which the ratio of non-performing loans (NPL) decreased during the year by 1.0 p.p. to the level of 9.0%. The improvement of the ratio took place in the area of loans granted to large enterprises (-1.0 p.p. y/y to the level of 6.7%) as well as in loans to small and medium-sized enterprises (-1.0 p.p. y/y to the level of 10.7%). For the portfolio of loans granted to households the NPL ratio also improved, but to a much smaller extent than in the case of enterprises (-0.2 p.p. to the level of 6.1%). Improvement was reported in the consumer loan area (-0.4 p.p. to the level of 11.9%) while mortgage loans remained unchanged at 2.9%. Only real estate loans denominated in foreign currencies experienced a performance deterioration with the NPL ratio rising by 0.3 p.p. to 3.4%.

Loans granted to corporate and individual clients

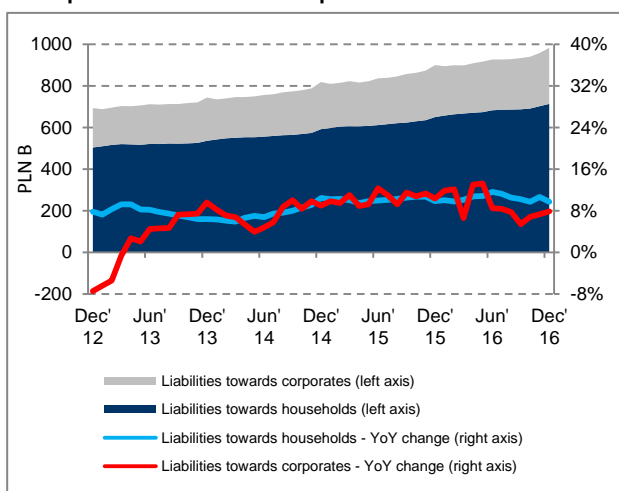


Source: National Bank of Poland, own calculations

In 2016, the banking sector recorded a gradual slowdown in the growth of lending to the non-financial sector, which fell to 5.1% y/y (PLN 52 billion) at the end of December 2016. The value of loans granted to corporates increased by 4.8% y/y and stood at PLN 306 billion as at the end of 2016. Taking into account the purpose of the loans contracted by enterprises, the highest growth was reported for investment loans (12.9% y/y), while current and real estate loans remained at almost unchanged levels (0.6% y/y and 0.4% y/y respectively). However, when broken down by their original tenors, the highest growth was recorded for long-term loans granted for periods of more than five years (9.1% y/y). Medium-term loans were just behind with their value rising by 7.7% y/y by the end of 2016. In contrast, short-term loans (up to 1 year) recorded a decrease in volume by 1.9% y/y.

In the category of loans granted to households, the increase in volume slowed down as well (5.2% y/y, an increase by PLN 32 billion to the level of PLN 649 billion). Consumer loans accelerated significantly (7.4% y/y, by PLN 10.9 billion to PLN 158 billion), while lending in the segment of real estate loans slowed down. The value of these loans taken out by households reached PLN 405 billion at the end of 2016, i.e. 4.8% (PLN 18.6 billion) more than at the end of 2015. The volume of real estate loans denominated in currencies other than Polish zloty dropped by 2.3% y/y (PLN 3.8 billion) while the PLN real estate loan market recorded a significant increase of 10.2% y/y (PLN 22.5 billion).

Corporate and individual deposits



Source: National Bank of Poland, own calculations

Corporate deposits increased by 7.9% y/y (by PLN 19.7 billion to PLN 270 billion). This growth was largely due to the still high growth rate of current deposits (16.3% y/y to PLN 170 billion). Time deposits decreased by 3.9% y/y (a decrease to PLN 100 billion) as at the end of December. Deposits of households also reported a significant increase in volume. Their balance grew by 9.7% y/y (by PLN 63.1 billion to PLN 714 billion). Just like for corporate deposits, the growth was mainly driven by current deposits (an increase of 17.9% y/y, by PLN 60.8 billion to PLN 400 billion) while time deposits remained almost unchanged at 0.7% y/y (by PLN 2.3 billion to PLN 314 billion).

In 2017, similar market conditions (low interest rates, bank tax) are expected as in 2016. Therefore banks will continue their activities aimed at adapting their business models to market conditions, which are characterized by high costs and strong competition in the high-margin product area.

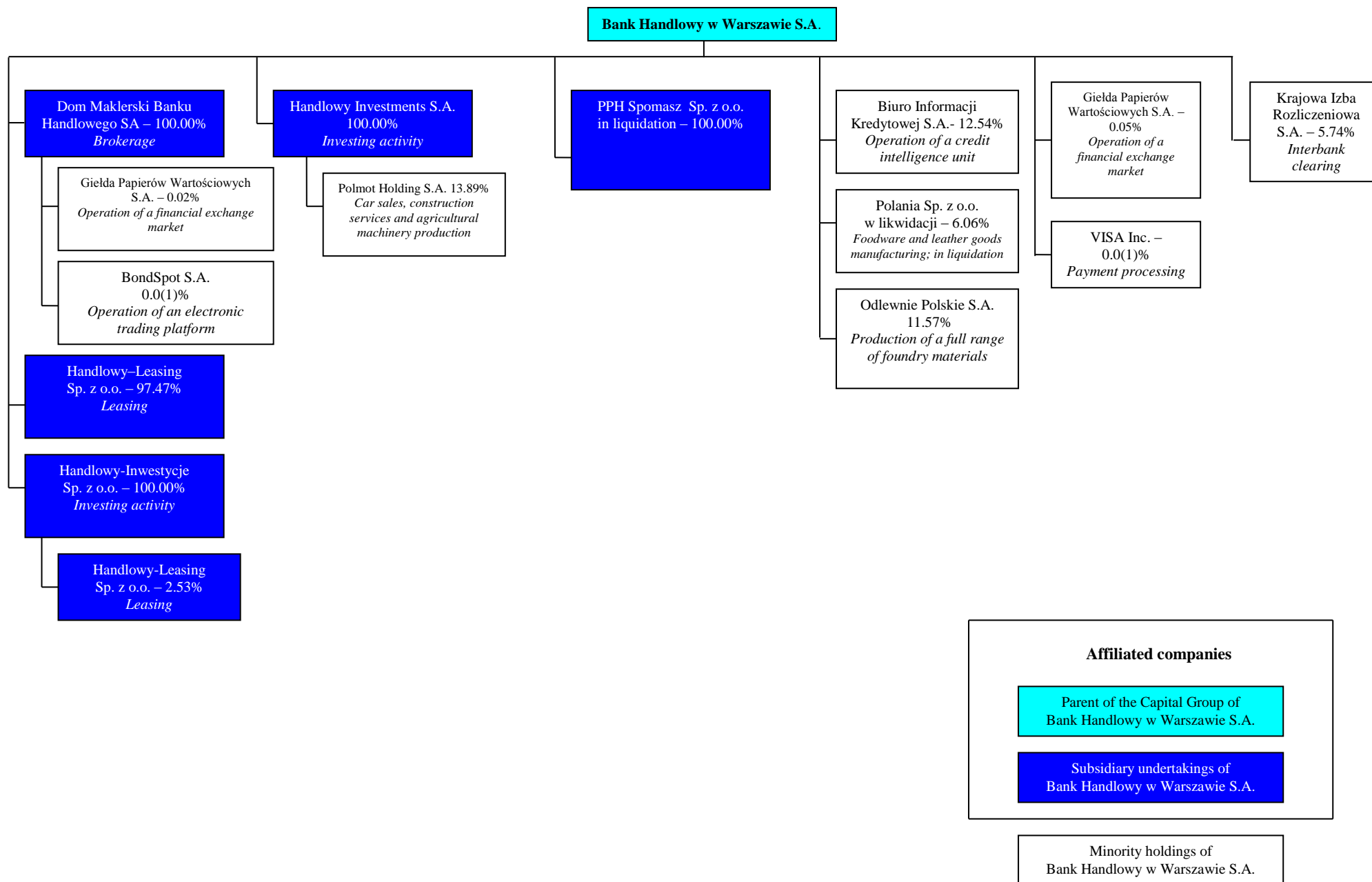
A significant risk to the banking sector is the still unsolved problem of mortgage loans denominated in foreign currencies. According to preliminary estimates, the solutions proposed so far, which would result in loan currency conversions, would generate costs that could endanger the stability of the banking system. On the other hand, an opportunity for banks will be the continued fast economic growth and the resulting stronger consumption, which may fuel demand for loans.

Recent years brought increased activity in the market of mergers and acquisitions in the financial sector. It appears that the composition of the banking sector in terms of ownership should not change significantly in the near future.

An important challenge facing the banking sector is also the situation in the credit union (SKOK) sector. Some unions are subject to recovery proceedings under the supervision of the Polish Financial Supervision Authority, and their future remains uncertain. A possible bankruptcy of subsequent unions could mean the need to use even more funds deposited in the Bank Guarantee Fund. The obligation to supplement the funds used for this purpose will mostly burden the banking sector, which could adversely affect the cost levels of financial institutions in subsequent years.

II. Organisational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2016; the Bank's share interest in each specified.



III. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. (the "Group") consists of a parent company and subsidiaries.

GROUP ENTITIES FULLY CONSOLIDATED

| Entity | Core business | Capital relationship | % of authorized capital held | Accounting method | Equity (PLN '000) |
|---|--------------------|----------------------|------------------------------|--------------------|-------------------|
| Bank Handlowy w Warszawie S.A. | Banking | parent | - | - | 6,723,926 |
| Dom Maklerski Banku Handlowego S.A. (DMBH)*** | Brokerage | subsidiary | 100.00% | full consolidation | 109,224 |
| Handlowy - Leasing Sp. z o.o.*** | Leasing | subsidiary | 100.00%** | full consolidation | 35,899 |
| Handlowy Investments S.A.*** | Investing activity | subsidiary | 100.00% | full consolidation | 18,802 |
| PPH Spomasz Sp. z o.o. w likwidacji*** | Ceased operations | subsidiary | 100.00% | full consolidation | in liquidation |

* Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2016

** Including indirect participations

*** Pre-audit data

GROUP ENTITIES NOT FULLY CONSOLIDATED

| Entity | Core business | Capital relationship | % of authorized capital held | Accounting method | Equity (PLN '000) |
|-----------------------------------|--------------------|----------------------|------------------------------|-------------------|-------------------|
| Handlowy-Inwestycje Sp. z o.o.*** | Investing activity | subsidiary | 100.00% | equity valuation | 10,885 |

*** Pre-audit data

IV. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Major Developments in 2016

In 2016, the Bank had to cope with a demanding market environment (slowdown in economic growth), difficult regulatory conditions and considerable volatility in financial asset valuations on global financial markets.

In the past year, the Group concentrated its activities on strategic areas which was reflected in the following achievements and events:

- Another year of **growth in lending activities**¹ at 7% y/y (institutional clients: 9% and individual clients: 4%);
- Growth in the **balance in current accounts**, both for individual and institutional clients (growth in volumes by 17% and 7% y/y, respectively);
- **High efficiency** – key performance indicators remained at high levels, better than sector averages:
 - Return on assets (ROA) at 1.3% (sector: 0.8%);
 - Return on tangible equity (ROTE) at 12.0% (sector: 7.9%);
- **Double-digit growth in the operating margin** by 14% y/y;
- **Increase in net interest income** by 3% y/y, including on client activities by 9% y/y despite the persistent historically low interest rates; increase in interest margin on earning assets to 2.6%;
- Consistent **cost discipline** – decrease in operating expenses and in amortization and depreciation in 2016 by 6%;
- **High level** of the Bank's **capital safety**: high quality of assets and capitals, Tier 1 ratio at 17.4% (sector: 16.1%²);
- **Transformation for innovation**:
 - At the end of 2016, the Bank did not have any traditional bank outlets, reflecting the effective implementation of the strategy of building a **Smart Banking Ecosystem**. In 2016, the Bank introduced a new format for the

¹ Lending excluding receivables under securities reverse repurchase transactions.

² Tier 1 ratio for the sector represents the value for the third quarter of 2016, when drafting the report there were no data available as at the end of the fourth quarter of 2016.

- physical distribution of banking products – **Smart Mini** outlets. Smart Mini uses a sales model based on mobility and can be moved to any location within two or three days, allowing the Bank to literally follow its clients;
- The Bank has developed remote service processes for the most affluent clients from the Citigold and Citigold Private Client segments. The Bank has also introduced a new tool: **CitiPlanner for iPad**, which enables investment advice to be provided without the need to visit a physical branch;
- Work is underway on the development of the new Citibank Online transaction service – **Redesign+**, which will be available to clients in the first quarter of 2017. Redesign+ is built completely from scratch and is based on the clients' experiences. This is a key part of the strategy that will make the Bank the leader in the electronic banking area;
- **Promoting online and mobile banking** among bank clients. The share of transactions executed via online or mobile banking amounted to 97.5% in 2016, which means an improvement of 2 p.p. in relation to 2015. At the same time, the number of mobile banking users grew by 14% y/y;
- **Increase in credit card acquisitions through online campaigns**. Sales of credit cards increased by 47% compared to 2015, accounting for 33% of total Bank sales;
- **The development of relational banking** for consumers continued. The Bank was ranked first in the Euromoney Private Banking survey.
- **Leading position in the area of financial markets:**
 - The Bank's strong position with respect to **FX trading volumes**. 80% of all transactions are conducted through CitiFX Pulse;
 - The first place in the prestigious Ministry of Finance **Dealers of Treasury Securities** ranking in 2017 (the fifth time in a row);
 - The Bank maintained its leading position in **depository and custody activities**, with its share amounting to 40%;
 - DMBH is the leader in the **capital market** in terms of its share in turnover in stocks traded on the secondary market (10.3%);
 - DMBH reported an **increase in the number of investment accounts** by 18% y/y, primarily due to a steady growth in the number of brokerage service agreements for foreign markets and foreign exchange services on the CitiFX Pro platform;
- **Transactional banking successes:**
 - **Growth in current deposits by 10% y/y** thanks to a consistent focus on operating accounts;
 - Increase in the assets of the **supplier finance program** by 20% y/y;
 - Consistent improvements as part of the implementation of the **electronic platform for handling trade finance products – 100% of financial transactions** were processed on the basis of **electronic applications**;
 - **The introduction of the innovative solution** combining SEPA Direct Debits with the Citi FX Pulse currency exchange platform is ideal for companies that perform regular settlements with counterparties from the eurozone;
- **Leveraging global experience** in the execution of securitization and debt securities market transactions;
- **Building value for shareholders** – safety and stable position of the Bank confirmed by a consistent dividend policy. At the same time, the Bank also maintained its listing in the new edition of the RESPECT Index – the WSE index comprising the most socially responsible companies. Citi Handlowy is one of the two banks that have remained on the list since its first edition.

2. Summary financial data of the Bank and the Group

The financial data are presented both for the Bank and the Group in this report. Due to fact that Bank's activity contains major part of the Group's activity (total assets, equity and revenue of the Bank constitute respectively 99.7%, 99.0% and 99.0% of assets, equity and consolidated revenue of the Group), the financial results and statement of financial position presentation base on consolidated figures except where expressly indicated that presented data regard Bank data.

| PLN million | Bank | | Capital Group | |
|-------------------------------------|----------|----------|---------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Total assets | 45,091.6 | 49,442.3 | 45,209.9 | 49,506.8 |
| Equity | 6,723.9 | 6,782.5 | 6,790.5 | 6,850.7 |
| Amounts due from customers* | 18,795.3 | 18,848.0 | 18,860.1 | 18,975.5 |
| Deposits * | 33,914.4 | 31,453.6 | 33,819.0 | 31,275.5 |
| Net profit | 604.2 | 620.2 | 601.6 | 626.4 |
| Earnings per ordinary share (PLN) | 4.62 | 4.75 | 4.60 | 4.79 |
| Dividend per ordinary share (PLN)** | 4.53 | 4.68 | 4.53 | 4.68 |
| Capital adequacy ratio | 17.2% | 16.8% | 17.4% | 17.1% |

* Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.

** As recommended by the Bank's Management Board on March 14, 2017.

3. Financial results of the Bank and the Group in 2016

3.1 Income statement

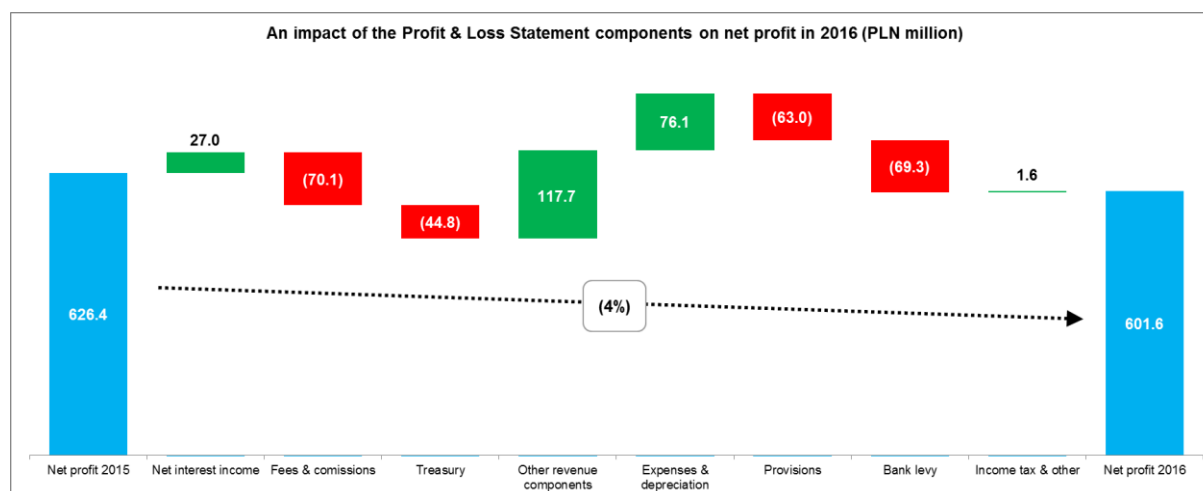
The Group's net profit for 2016 reached PLN 601.6 million and was PLN 24.8 million (i.e. 4.0%) lower than the profit for the year 2015. The consolidated gross profit for 2016 was PLN 764.3 million and decreased by PLN 26.4 million (i.e. 3.3%) as

compared with the previous year.

Selected income statement items

| PLN '000 | Bank | | Capital Group | | | |
|--|------------------|------------------|------------------|------------------|-----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | Change | |
| | | | | | PLN '000 | % |
| Net interest income | 999,870 | 962,710 | 1,003,571 | 976,600 | 26,971 | 2.8% |
| Net fee and commission income | 526,401 | 594,059 | 561,229 | 631,350 | (70,121) | (11.1%) |
| Dividend income | 29,005 | 22,957 | 8,050 | 7,382 | 668 | 9.0% |
| Net income on trading financial instruments and revaluation | 345,671 | 290,708 | 347,197 | 293,118 | 54,079 | 18.4% |
| Net gain on debt investment securities available-for-sale | 44,746 | 145,246 | 44,746 | 145,246 | (100,500) | (69.2%) |
| Net gain on capital investment instruments available-for-sale | 95,913 | 2,232 | 95,913 | 2,232 | 93,681 | - |
| Net gain on hedge accounting | 9,553 | 7,949 | 9,553 | 7,949 | 1,604 | 20.2% |
| Net other operating income | 8,617 | (10,732) | 11,205 | (12,170) | 23,375 | - |
| Total income | 2,059,776 | 2,015,129 | 2,081,464 | 2,051,707 | 29,757 | 1.5% |
| Overheads and general administrative expenses and depreciation, including | (1,177,990) | (1,251,601) | (1,202,223) | (1,278,297) | 76,074 | (6.0%) |
| Overheads and general administrative expenses | (1,108,862) | (1,183,516) | (1,132,301) | (1,207,875) | 75,574 | (6.3%) |
| Depreciation/amortization of tangible and intangible fixed assets | (69,128) | (68,085) | (69,922) | (70,422) | 500 | (0.7%) |
| Profit/loss on sale of other assets | 104 | 102 | 116 | 102 | 14 | 13.7% |
| Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted | (48,759) | 16,411 | (45,768) | 17,202 | (62,970) | - |
| Share in net profits of entities valued at equity method | - | - | 50 | 61 | (11) | (18.0%) |
| Tax on some financial institutions | (69,311) | - | (69,311) | - | (69,311) | - |
| Profit before tax | 763,820 | 780,041 | 764,328 | 790,775 | (26,447) | (3.3%) |
| Income tax expense | (159,621) | (159,814) | (162,748) | (164,356) | 1,608 | (1.0%) |
| Net profit | 604,199 | 620,227 | 601,580 | 626,419 | (24,839) | (4.0%) |

The impact of individual items of the income statement on net profit is shown on the graph below:



The following factors contributed to a change in net profit for 2016 as compared with 2015:

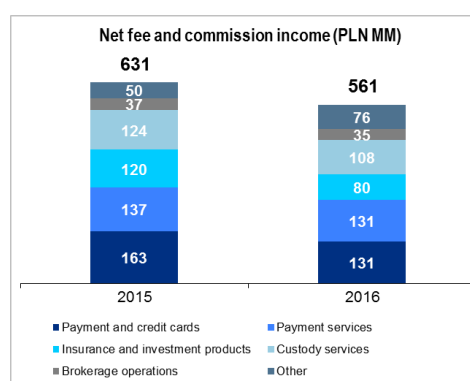
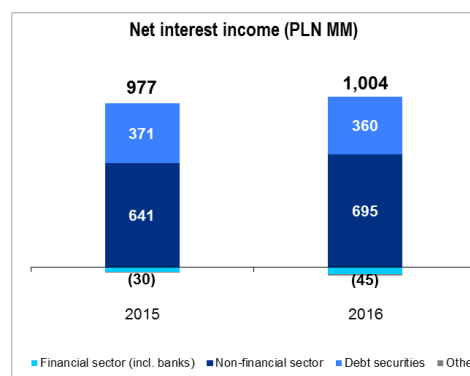
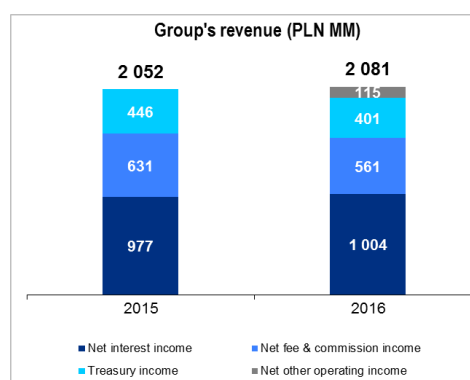
- Operating income (including net interest, fee and commission income, dividend income, the result on financial instruments held for trading and revaluation, the result on investment debt securities, the result on investment equity instruments, the result on hedge accounting and the result on other operating income and expenses) at PLN 2,081.5 million as against PLN 2,051.7 million in 2015 – an increase of PLN 29.8 million (i.e. 1.5%) as against 2015 income, primarily due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc.;
- Operating and overhead expenses along with amortization and depreciation of PLN (1,202.2) million as against PLN (1,278.3) million in the previous year – a decrease in expenses by PLN 76.1 million (i.e. 6.0%). In 2016, the Bank made an additional contribution to the Bank Guarantee Fund for the payment of guaranteed funds to depositors of Bank Spółdzielczy (co-operative bank) in Nadarzyn amounting to PLN 5.6 million as against the PLN 63.6 million allocated by the Bank to the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa (craft and agriculture co-operative bank) in Wołomin in 2015. With the effect of additional charges excluded, the drop in expenses compared to 2015 was PLN 18.1 million (i.e. 1.5%);
- The result related to impairment write-downs on financial assets and provisions for financial and guarantee commitments granted stood at PLN (45.8) million in 2016 as compared to a positive result of PLN 17.2 million related to such impairment write-downs in 2015.

3.1.1 Revenue

Operating income in 2016 was PLN 2,081.5 million compared to PLN 2,051.7 million in the previous year, an increase of PLN 29.8 million, i.e. 1.5%.

In 2016, operating income was affected by the following factors:

- net interest income equal to PLN 1,003.6 million as against PLN 976.6 million in 2015 – an increase by PLN 27.0 million (i.e. 2.8%) despite the prevailing record low interest rate environment. Interest income in 2016 increased by PLN 26.2 million (i.e. 2.1%) compared to 2015 and amounted to PLN 1,258.6 million. Receivables from clients were the main source of interest income, which reached PLN 837.3 million and was higher by PLN 59.0 million (i.e. 7.6%) compared to 2015 as a result of the positive contribution of loan margins. On the other hand, a decrease of PLN 25.3 million (i.e. 34.4%) was recorded in interest income on debt securities held for trading, mainly as a result of the lower average volume of securities. At the same time interest expenses in 2016 declined slightly by PLN 0.8 million (i.e. 0.3%) compared to 2015 and amounted to PLN 255.0 million;
- net fee and commission income equal to PLN 561.2 million as against PLN 631.4 million in 2015 – a decrease by PLN 70.1 million (i.e. 11.1%) was primarily the result of the drop by PLN 40.1 million (i.e. 33.5%) in net income on intermediation in the sale of insurance and investment products caused by the clients' lower interest in investment products as a result of less favorable market sentiment and new regulatory requirements related to group insurance. At the same time, net income on payment and credit cards declined by PLN 31.7 million (i.e. 19.5%);
- the result on financial instruments held for trading and revaluation amounted to PLN 347.2 million as against PLN 293.1 million in 2015 – an increase by PLN 54.1 million being primarily the consequence of a higher result on client activities;
- the result on investment debt securities amounted to PLN 44.7 million as compared to PLN 145.2 million in 2015 – down by PLN 100.5 million, mainly because of less favorable market conditions;
- net income on investment equity instruments available for sale amounted to PLN 95.9 million as against PLN 2.2 million in 2015, i.e. an increase of PLN 93.7 million due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. having been posted.

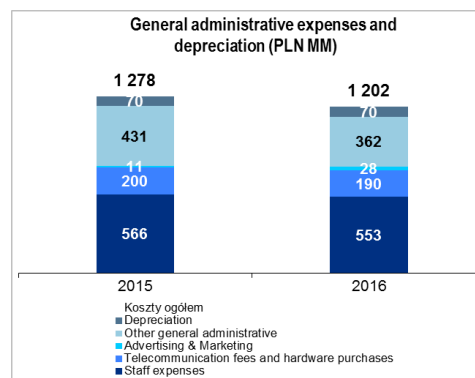


3.1.2 Expenses

General expenses & depreciation

| PLN '000 | Bank | | Capital Group | | | |
|--|------------------|------------------|------------------|------------------|-----------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | Change | |
| | | | | | PLN '000 | % |
| Personnel costs | 537,894 | 548,163 | 552,718 | 565,763 | (13,045) | (2.3%) |
| General administrative expenses, including: | 570,968 | 635,353 | 579,583 | 642,112 | (62,529) | (9.7%) |
| Telecommunication fees and IT hardware | 183,938 | 195,089 | 189,622 | 200,464 | (10,842) | (5.4%) |
| Building maintenance and rent | 84,290 | 81,976 | 84,469 | 82,157 | 2,312 | 2.8% |
| Costs of external services, including advisory, audit, consulting services | 54,872 | 65,219 | 55,356 | 66,253 | (10,897) | (16.4%) |
| Total overheads | 1,108,862 | 1,183,516 | 1,132,301 | 1,207,875 | (75,574) | (6.3%) |
| Depreciation | 69,128 | 68,085 | 69,922 | 70,422 | (500) | (0.7%) |
| Total general expenses & depreciation | 1,177,990 | 1,251,601 | 1,202,223 | 1,278,297 | (76,074) | (6.0%) |

Operating and overhead expenses, depreciation and amortization amounted to PLN 1,202.2 million as against PLN 1,278.3 million in the same period of the previous year – a decrease in expenses of PLN 76.1 million (i.e. 6.0%) resulting from a decrease of PLN 62.5 million (i.e. 9.7%) in operating and overhead expenses in connection with the additional contribution to the Bank Guarantee Fund made in 2015 and lower payroll costs as a result of a decrease in staffing.



3.1.3 Net impairment losses on financial assets and provisions for financial and guarantee commitments

Net impairment and provisions

| PLN '000 | Bank | | Capital Group | | | |
|---|-----------------|---------------|-----------------|---------------|-----------------|----------|
| | 2016 | 2015 | 2016 | 2015 | Change | |
| | | | | | PLN '000 | % |
| Net impairment losses incurred but not reported (IBNR) | (11 229) | 6 548 | (8 527) | 6 727 | (15 254) | - |
| Net impairment losses on loans and off-balance sheet liabilities | (39 243) | 7 942 | (39 179) | 8 540 | (47 719) | - |
| accounted for individually | 17 999 | (2 313) | 18 008 | (1 791) | 19 799 | - |
| accounted for collectively, on a portfolio basis | (57 242) | 10 255 | (57 187) | 10 331 | (67 518) | - |
| Net impairment losses on equity investments | (225) | (14) | - | - | - | - |
| Other | 1 938 | 1 935 | 1 938 | 1 935 | 3 | 0,2% |
| Net impairment losses on financial assets and provisions for financial and guarantee commitments | (48 759) | 16 411 | (45 768) | 17 202 | (62 970) | - |

The establishment of net impairment write-downs amounting to PLN 45.8 million as against the reversal of net write-downs in 2015 amounting to PLN 17.2 million – the deterioration of PLN 63.0 million concerned primarily the Consumer Bank (PLN 71.2 million of net impairment write-downs established in 2016 as against PLN 13.7 million reversed in 2015) as a result of the increase in the average age of the impaired loan portfolio as well as the increase in IBNR provisions caused by the growth of the loan portfolio. In the Corporate and Commercial Bank segment, a higher positive result was reported in the net impairment category, i.e. PLN 25.5 million as against PLN 3.5 million in 2015. This was the result of the recovery of written-off receivables from Commercial Bank clients.

3.1.4 Ratio analysis

The Group's efficiency ratios

| | 2016 | 2015 |
|---|------|-------|
| Return on equity (ROE)* | 9.6% | 10.0% |
| Return on assets (ROA)** | 1.3% | 1.3% |
| Net interest margin (NIM)*** | 2.2% | 2.0% |
| Margin on interest-bearing assets | 2.4% | 2.3% |
| Earnings per share in PLN | 4.60 | 4.79 |
| Cost/income**** | 58% | 62% |
| Non-financial sector loans to non-financial sector deposits | 59% | 61% |
| Non-financial sector loans to total assets | 38% | 34% |
| Net interest income to total revenue | 51% | 48% |
| Net fee and commission income to total revenue | 27% | 31% |

* Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;

** Net profit to average total assets calculated on a quarterly basis;

*** Net interest income to average total assets calculated on a quarterly basis;

**** Overheads, general administrative expenses, depreciation and amortization to operating income.

The Bank's efficiency ratios

| | 2016 | 2015 |
|------------------------------------|------|------|
| Return on equity (ROE)* | 9.8% | 9.5% |
| Return on assets (ROA)** | 1.3% | 1.3% |
| Net interest margin (NIM)*** | 2.2% | 2.0% |
| Earnings per ordinary share in PLN | 4.62 | 4.75 |
| Cost/Income**** | 57% | 62% |

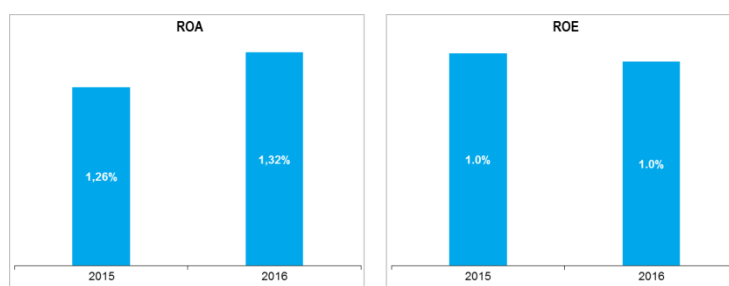
* Net profit to average equity (including net profit for the current year) calculated on a quarterly basis

** Net profit to average total assets calculated on a quarterly basis

*** Net interest income to average total assets calculated on a quarterly basis

**** Overheads, general administrative expenses, depreciation and amortization to operating income

In 2016, returns on equity and assets of the Group remained at a higher level than the average in the banking sector, amounting respectively to 9.8% and 1.3%.



In the area of cost efficiency, the cost to income ratio fell to 57%, i.e. improved by 4 p.p. compared to the previous year. The main factor influencing the decrease in the cost to income ratio were lower overall operating expenses owing to a decrease in the cost of contributions to the Bank Guarantee Fund.

In 2016, the interest margin improved, increasing to 2.2% on total assets and to 2.4% on interest-bearing assets, mainly due to the rising loan margin.

The Bank maintained a safe position in terms of its capital adequacy, as evidenced by its capital adequacy ratio of 17.4%.

3.2 Consolidated statement of financial position

As at 31 December 2016, total assets of the Group reached PLN 45,209.9 million and were 8.7% lower than at the end of 2015.

Consolidated statement of financial position

| PLN '000 | Bank | | Capital Group | | | |
|--|------------|------------|---------------|------------|-------------|---------|
| | As at | | As at | | Change | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | tys. zł | % |
| ASSETS | | | | | | |
| Cash and balances with central bank | 665,755 | 2,170,237 | 665,755 | 2,170,237 | (1,504,482) | (69.3%) |
| Receivables from banks | 586,973 | 756,859 | 587,087 | 757,103 | (170,016) | (22.5%) |
| Financial assets held for trading | 3,772,162 | 6,959,692 | 3,781,405 | 6,987,284 | (3,205,879) | (45.9%) |
| Hedging derivatives | 12,244 | 1,795 | 12,244 | 1,795 | 10,449 | 582.1% |
| Debt securities available-for-sale | 19,072,371 | 18,351,259 | 19,072,371 | 18,351,259 | 721,112 | 3.9% |
| Equity investments, held at equity value | - | - | 10,471 | 7,768 | 2,703 | 34.8% |
| Equity investments | 125,107 | 299,946 | 22,842 | 67,744 | (44,902) | (66.3%) |
| Receivables from customers | 18,795,341 | 18,847,968 | 18,860,053 | 18,975,471 | (115,418) | (0.6%) |
| Property and equipment | 332,336 | 342,941 | 342,971 | 354,080 | (11,109) | (3.1%) |
| Intangible assets | 1,349,810 | 1,370,392 | 1,350,861 | 1,371,879 | (21,018) | (1.5%) |
| Receivables due to current income tax | 12,911 | 14,351 | 13,901 | 20,673 | (6,772) | (32.8%) |
| Asset due to deferred income tax | 199,354 | 162,059 | 198,383 | 161,586 | 36,797 | 22.8% |
| Other assets | 165,356 | 162,873 | 289,644 | 277,985 | 11,659 | 4.2% |
| Non-current assets available-for-sale | 1,928 | 1,928 | 1,928 | 1,928 | - | - |

| PLN '000 | Bank | | Capital Group | | | |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|---------------|
| | As at | | As at | | Change | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | tys. zł | % |
| Total assets | 45,091,648 | 49,442,300 | 45,209,916 | 49,506,792 | (4,296,876) | (8.7%) |
| LIABILITIES | | | | | | |
| Liabilities towards banks | 2,303,627 | 6,922,125 | 2,310,742 | 6,963,561 | (4,652,819) | (66.8%) |
| Financial liabilities held for trading | 1,305,614 | 3,247,523 | 1,305,614 | 3,247,523 | (1,941,909) | (59.8%) |
| Hedging derivatives | 39,897 | 112,383 | 39,897 | 112,383 | (72,486) | (64.5%) |
| Liabilities towards customers | 34,031,947 | 31,764,349 | 33,936,511 | 31,586,303 | 2,350,208 | 7.4% |
| Provisions | 22,068 | 22,814 | 22,856 | 23,494 | (638) | (2.7%) |
| Other liabilities | 664,569 | 590,640 | 803,846 | 722,872 | 80,974 | 11.2% |
| Total liabilities | 38,367,722 | 42,659,834 | 38,419,466 | 42,656,136 | (4,236,670) | (9.9%) |
| EQUITY | | | | | | |
| Issued capital | 522,638 | 522,638 | 522,638 | 522,638 | - | - |
| Supplementary capital | 2,944,585 | 2,944,585 | 3,003,082 | 3,001,525 | 1,557 | 0.1% |
| Revaluation reserve | (215,061) | (163,809) | (214,843) | (163,613) | (51,230) | 31.3% |
| Other reserves | 2,867,565 | 2,858,825 | 2,885,044 | 2,869,509 | 15,535 | 0.5% |
| Retained earnings | 604,199 | 620,227 | 594,529 | 620,597 | (26,068) | (4.2%) |
| Total equity | 6,723,926 | 6,782,466 | 6,790,450 | 6,850,656 | (60,206) | (0.9%) |
| Total liabilities and equity | 45,091,648 | 49,442,300 | 45,209,916 | 49,506,792 | (4,296,876) | (8.7%) |

3.2.1 Assets

Gross receivables from clients

| PLN '000 | Bank | | Capital Group | | | |
|---|-------------------|-------------------|-------------------|-------------------|------------------|---------------|
| | As at | | As at | | Change | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Non-banking financial entities | 1,653,137 | 1,982,420 | 1,708,064 | 2,050,985 | (342,921) | (16.7%) |
| Non-financial sector entities | 10,903,632 | 10,938,259 | 10,917,310 | 11,005,152 | (87,842) | (0.8%) |
| Individuals | 6,696,898 | 6,436,390 | 6,697,209 | 6,436,445 | 260,764 | 4.1% |
| Public entities | 100,889 | 68,291 | 100,889 | 68,291 | 32,598 | 47.7% |
| Other non-financial sector entities | 2 | 4 | 2 | 4 | (2) | (50.0%) |
| Total gross receivables from clients | 19,354,558 | 19,425,364 | 19,423,474 | 19,560,877 | (137,403) | (0.7%) |

Net receivables from clients

| PLN '000 | Bank | | Capital Group | | | |
|---|-------------------|-------------------|-------------------|-------------------|------------------|----------------|
| | As at | | As at | | Change | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Receivables from financial sector entities | 1,635,327 | 1,965,150 | 1,690,254 | 2,033,715 | (343,461) | (16.9%) |
| Receivables from non-financial sector entities, including: | 17,160,014 | 16,882,818 | 17,169,799 | 16,941,756 | 228,043 | 1.3% |
| Corporate clients* | 10,747,898 | 10,710,344 | 10,757,372 | 10,769,227 | (11,855) | (0.1%) |
| Individuals, including: | 6,412,116 | 6,172,474 | 6,412,427 | 6,172,529 | 239,898 | 3.9% |
| Unhedged liabilities | 5,095,954 | 4,872,393 | 5,096,265 | 4,872,448 | 223,817 | 4.6% |
| Mortgage loans | 1,316,162 | 1,300,081 | 1,316,162 | 1,300,081 | 16,081 | 1.2% |
| Total net receivables from clients | 18,795,341 | 18,847,968 | 18,860,053 | 18,975,471 | (115,418) | (0.6%) |

*Corporate clients include enterprises, public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households

The value of net receivables from clients at the end of 2016 was PLN 18.9 billion, i.e. slightly lower compared to the end of 2015. After excluding receivables from securities purchased under reverse repurchase agreements, net receivables from clients increased by PLN 1.2 billion (i.e. 7.0%). Receivables from the non-banking sector increased both for institutional clients excluding reverse repo transactions (by PLN 1.0 billion, i.e. 8.7%; the increase was recorded for Corporate and Commercial Bank segments) and for consumers (by PLN 0.2 billion, i.e. 3.9%; the increase was across the board with the highest growth recorded for non-secured loans).

Debt securities portfolio of the Bank

| PLN '000 | As at | | Change | |
|--|-------------------|-------------------|--------------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Treasury bonds, including: | 19,312,519 | 21,121,892 | (1,809,373) | (8.6%) |
| covered bonds in fair value hedge accounting | 4,794,696 | 4,657,996 | 136,700 | 2.9% |
| Bank bonds | 66,866 | 1,888,873 | (1,822,007) | (96.5%) |
| Bills issued by financial entities | 58,299 | 33,054 | 25,245 | 76.4% |
| NBP bills | 2,239,715 | - | 2,239,715 | - |
| Total | 21,677,399 | 23,043,819 | (1,366,420) | (5.9%) |

The volume of the debt securities portfolio decreased by PLN 1.4 billion (i.e. 5.9%) as at the end of 2016. This was the result of the reduction in positions in bank and Treasury bonds, partially offset by the increased position in National Bank of Poland money market bills.

3.2.2 Liabilities

Liabilities towards customers

| PLN '000 | Bank | | Capital Group | | | |
|--|-------------------|-------------------|-------------------|-------------------|------------------|----------------|
| | As at | | As at | | Change | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Deposits of financial sector entities | 4,895,151 | 3,606,762 | 4,696,126 | 3,381,132 | 1,314,994 | 38.9% |
| Deposits of non-financial sector entities, including | 29,019,292 | 27,846,825 | 29,122,881 | 27,894,409 | 1,228,472 | 4.4% |
| Non-financial sector entities | 15,361,011 | 15,966,147 | 15,372,571 | 15,967,016 | (594,445) | (3.7%) |
| Non-commercial institutions | 564,636 | 460,371 | 564,636 | 460,371 | 104,265 | 22.6% |
| Individuals | 9,856,946 | 8,695,317 | 9,948,975 | 8,742,032 | 1,206,943 | 13.8% |
| Public sector entities | 3,236,699 | 2,724,990 | 3,236,699 | 2,724,990 | 511,709 | 18.8% |
| Other liabilities | 117,504 | 310,762 | 117,504 | 310,762 | (193,258) | (62.2%) |
| Total liabilities towards customers | 34,031,947 | 31,764,349 | 33,936,511 | 31,586,303 | 2,350,208 | 7.4% |
| Deposits of financial and non-financial sector entities, including: | | | | | | |
| Liabilities in PLN | 26,491,240 | 24,767,988 | 26,395,804 | 24,589,942 | 1,805,862 | 7.3% |
| Liabilities in foreign currency | 7,423,203 | 6,685,599 | 7,423,203 | 6,685,599 | 737,604 | 11.0% |
| Total deposits of financial and non-financial sector entities | 33,914,443 | 31,453,587 | 33,819,007 | 31,275,541 | 2,543,466 | 8.1% |

The main item that finances the Group's assets are deposits from non-financial sector clients, which grew by PLN 1.2 billion, i.e. 4.4% in 2016. The increase was recorded for funds in the clients' current accounts as a result of our consistent strategy focused on operating accounts. The total increase in current deposits of non-financial sector clients amounted to over PLN 2.1 billion (i.e. 10.4%) of which about PLN 1.2 billion represented the increase in funds on consumer current accounts and PLN 0.9 billion – current deposits of institutional clients (including budgetary units).

3.2.3 Source and use of funds

| PLN '000 | Bank | | Capital Group | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Source of funds | | | | |
| Funds of banks | 2,303,627 | 6,922,125 | 2,310,742 | 6,963,561 |
| Funds of customers | 34,031,947 | 31,764,349 | 33,936,511 | 31,586,303 |
| Own funds with net income | 6,723,926 | 6,782,466 | 6,790,450 | 6,850,656 |
| Other funds | 2,032,148 | 3,973,360 | 2,172,213 | 4,106,272 |
| Total source of funds | 45,091,648 | 49,442,300 | 45,209,916 | 49,506,792 |
| Use of funds | | | | |
| Receivables from banks | 586,973 | 756,859 | 587,087 | 757,103 |
| Receivables from customers | 18,795,341 | 18,847,968 | 18,860,053 | 18,975,471 |
| Securities, shares and other financial assets | 22,969,640 | 25,610,897 | 22,887,089 | 25,414,055 |
| Other uses of funds | 2,739,694 | 4,226,576 | 2,875,687 | 4,360,163 |
| Total use of funds | 45,091,648 | 49,442,300 | 45,209,916 | 49,506,792 |

3.3 Equity and the capital adequacy ratio

The value of equity at the end of 2016 slightly decreased compared to the end of the previous year. With the decline in the revaluation reserve (by PLN 51.2 million), the total amount of equity at the end of 2016 was lower by PLN 35.4 million (i.e. 0.6%) than in the previous year.

Group's equity*

| PLN '000 | As at | | Change | |
|-----------------------|------------------|------------------|-----------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Issued capital | 522,638 | 522,638 | - | - |
| Supplementary capital | 3,003,082 | 3,001,525 | 1,557 | 0.1% |
| Other reserves | 2,356,107 | 2,349,602 | 6,505 | 0.3% |
| Revaluation reserve | (214,843) | (163,613) | (51,230) | 31.3% |
| General risk reserve | 529,000 | 521,000 | 8,000 | 1.5% |
| Other equity | (7,114) | (6,915) | (199) | 2.9% |
| Total equity | 6,188,870 | 6,224,237 | (35,367) | (0.6%) |

* Equity net of net profit/(loss)

The capitals are fully sufficient to ensure financial security to the institution and the deposits it accepts, and to ensure business growth of the Group.

The table below presents financial data needed for calculation of the capital adequacy ratio based on the consolidated financial statements of the Group and the stand-alone statements of the Bank.

Group's capital adequacy ratio*

| PLN '000 | Bank | | Capital Group | |
|---|------------------|------------------|------------------|------------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| I Common Equity Tier 1 Capital | 4,727,393 | 4,719,986 | 4,796,869 | 4,781,008 |
| II Total capital requirements, of which: | 2,204,888 | 2,252,301 | 2,199,922 | 2,238,956 |
| credit risk capital requirements (II*8%) | 1,698,683 | 1,706,398 | 1,687,217 | 1,685,320 |
| counterparty risk capital requirements | 65,487 | 78,682 | 65,908 | 78,682 |
| Credit valuation correction capital requirements | 63,927 | 34,059 | 63,927 | 34,059 |
| excess concentration and large exposures risks capital requirements | 3,176 | 17,542 | 1,792 | 16,418 |
| total market risk capital requirements | 74,245 | 84,287 | 74,357 | 86,544 |
| operational risk capital requirements | 299,370 | 331,333 | 306,721 | 337,933 |
| Common Equity Tier 1 Capital ratio | 17.2% | 16.8% | 17.4% | 17.1% |

* Capital Adequacy Ratio calculated according to the rules specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

As at 31 December 2016, the Group's capital adequacy ratio stood at 17.4% and was slightly higher than as at 31 December 2015 (17.1%).

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2016

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is consistent and covers the Bank as the parent company and its subsidiaries (DMBH, Handlowy-Leasing Sp. z o.o.), excluding special purpose entities (so-called investment vehicles), companies in liquidation or bankruptcy and entities that ceased their statutory operations. The policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. Borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures can be taken as needed.

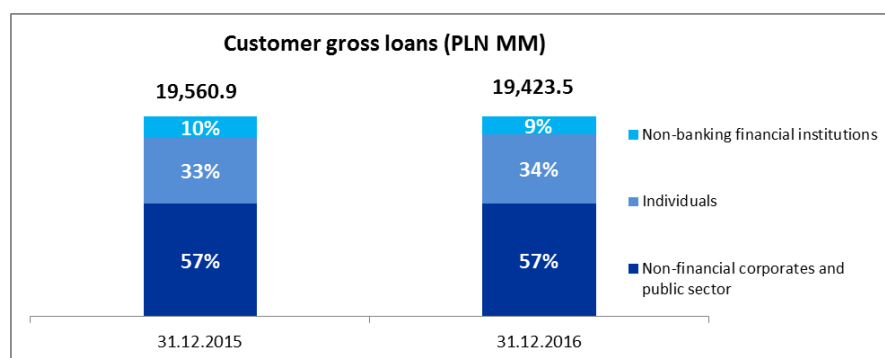
In 2016, the Group focused its credit risk management activities on:

- supporting the growth of assets;
- optimization of the lending process and adjustment of the Group's lending offer to the market conditions;
- maintaining the high quality of the loan portfolio;
- intensification of debt collection activities for the portfolio of retail credit exposures;
- efficient allocation of capital;
- improvement of management processes for the risk of the models used to measure credit risk;
- continued development of credit risk measurement methods.

Gross loans to customers of the Group

| PLN '000 | As at | | Change | |
|--|-------------------|-------------------|------------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Loans in PLN | 16,520,674 | 16,492,240 | 28,434 | 0.2% |
| Loans in foreign currency | 2,902,800 | 3,068,637 | (165,837) | (5.4%) |
| Total | 19,423,474 | 19,560,877 | (137,403) | (0.7%) |
| Loans to non-financial sector entities | 17,715,410 | 17,509,892 | 205,518 | 1.2% |
| Loans to financial sector entities | 1,708,064 | 2,050,985 | (342,921) | (16.7%) |
| Total | 19,423,474 | 19,560,877 | (137,403) | (0.7%) |
| Non-bank financial entities | 1,708,064 | 2,050,985 | (342,921) | (16.7%) |
| Non-financial sector entities | 10,917,310 | 11,005,152 | (87,842) | (0.8%) |
| Individuals | 6,697,209 | 6,436,445 | 260,764 | 4.1% |
| Public sector entities | 100,889 | 68,291 | 32,598 | 47.7% |
| Non-commercial institutions | 2 | 4 | (2) | (50.0%) |
| Total | 19,423,474 | 19,560,877 | (137,403) | (0.7%) |

As at 31 December 2016, gross credit exposure to clients amounted to PLN 19,423.5 million, representing a slight decrease of 0.7% compared to 31 December 2015. The largest part of the portfolio of receivables from clients represents loans to non-financial sector entities (56.2%), which decreased by 0.8% in 2016. Compared to 2015, receivables from individual clients increased by 4.1% and their share in total gross loan receivables amounted to 34.5%.



As at the end of December 2016 the currency structure of loans outstanding changed slightly as compared to the end of 2015. The share of foreign currency loans, which in December 2015 stood at 15.7%, decreased to 14.9% by December 2016. It should be stressed that the Group does not grant foreign currency loans to individual clients but only to business entities who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the foreign exchange risk without a significant threat to their financial position.

To avoid exposing the portfolio to a limited group of clients, the Group monitors the concentration of its exposures on a regular basis.

Concentration of exposure to customers of the Group

| PLN'000 | 31.12.2016 | | | 31.12.2015 | | |
|-----------|-------------------------|---|----------------|-------------------------|---|----------------|
| | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure |
| CLIENT 1 | 564,798 | 500,185 | 1,064,983 | 360,285 | 700,722 | 1,061,007 |
| CLIENT 2 | 1,000,000 | - | 1,000,000 | - | - | - |
| GROUP 3 | 115,751 | 763,725 | 879,476 | 120,987 | 791,637 | 912,624 |
| CLIENT 4 | 316,900 | 433,100 | 750,000 | 500,000 | 250,000 | 750,000 |
| GROUP 5 | 14 | 641,332 | 641,346 | 125,146 | 502,862 | 628,008 |
| GROUP 6 | 396,000 | 205,445 | 601,445 | 3 | 601,358 | 601,361 |
| CLIENT 7 | 600,000 | - | 600,000 | 700,000 | - | 700,000 |
| GROUP 8 | 431,855 | 156,716 | 588,571 | 447,882 | 84,545 | 532,427 |
| GROUP 9 | 531,149 | 53,370 | 584,519 | 158,540 | 55,057 | 213,597 |
| GROUP 10 | 187,415 | 323,310 | 510,725 | 200,692 | 173,763 | 374,455 |
| GROUP 11 | - | - | - | 419,442 | 94,426 | 513,868 |
| CLIENT 12 | - | - | - | - | 500,078 | 500,078 |

| PLN'000 | 31.12.2016 | | | 31.12.2015 | | |
|--------------|-------------------------|---|------------------|-------------------------|---|------------------|
| | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure |
| CLIENT 13 | - | - | - | 450,000 | - | 450,000 |
| Total | 4,143,882 | 3,077,183 | 7,221,065 | 3,482,977 | 3,754,448 | 7,237,425 |

* Net of equity and other securities exposures

Concentration of exposure in individual industries of the Group*

| Sector of the economy according to the Polish Classification of Economic Activity (PKD)* | 31.12.2016 | | 31.12.2015 | |
|---|-------------------|---------------|-------------------|---------------|
| | PLN'000 | % | PLN'000 | % |
| Wholesale trade, excluding trade in vehicles | 4,122,906 | 17.3% | 4,416,137 | 17.8% |
| Manufacture and supply of electricity, gas, steam, hot water and air conditioning | 2,526,268 | 10.6% | 2,661,946 | 10.7% |
| Financial intermediation, excluding insurance and pension funds | 2,492,605 | 10.5% | 1,842,100 | 7.4% |
| Retail trade, excluding retail trade in vehicles | 1,313,366 | 5.5% | 1,413,278 | 5.7% |
| Production of food and beverages | 1,169,614 | 4.9% | 1,290,045 | 5.2% |
| Metal ore mining | 1,064,982 | 4.5% | 1,061,007 | 4.3% |
| Production and processing of coke and petroleum products | 936,473 | 3.9% | 848,866 | 3.4% |
| Production of metal goods, excluding machines and equipment | 615,380 | 2.6% | 689,814 | 2.8% |
| Production of basic pharmaceutical products and medicines and other pharmaceutical products | 600,599 | 2.5% | 229,606 | 0.9% |
| Telecommunication | 595,110 | 2.5% | 438,956 | 1.8% |
| 10 business sectors | 15,437,303 | 64.8% | 14,891,755 | 60.1% |
| Other sectors | 8,380,065 | 35.2% | 9,899,052 | 39.9% |
| Total | 23,817,368 | 100.0% | 24,790,807 | 100.0% |

*Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks).

1.2 Loan portfolio quality

All of the Group's receivables are attributed to two portfolios: the portfolio of impaired receivables and the portfolio of non-impaired receivables (IBNR). In the impaired portfolio, classifiable exposures that are considered significant are assessed individually while exposures that are not individually significant are collectively tested for impairment.

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

| | As at | | Change | |
|--|-------------------|-------------------|------------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| With not recognized credit losses, including: | 18,790,328 | 18,861,253 | (70,925) | (0.4%) |
| non-financial sector entities | 17,099,400 | 16,827,402 | 271,998 | 1.6% |
| institutional clients* | 10,719,577 | 10,729,522 | (9,945) | (0.1%) |
| individual clients | 6,379,823 | 6,097,880 | 281,943 | 4.6% |
| With recognized credit losses, including: | 564,597 | 625,591 | (60,994) | (9.7%) |
| non-financial sector entities | 547,461 | 608,457 | (60,996) | (10.0%) |
| institutional clients* | 230,075 | 269,892 | (39,817) | (14.8%) |
| individual clients | 317,386 | 338,565 | (21,179) | (6.3%) |
| Dues related to matured derivative transactions | 68,549 | 74,033 | (5,484) | (7.4%) |
| Total loans to customers, gross, including: | 19,423,474 | 19,560,877 | (137,403) | (0.7%) |
| non-financial sector entities | 17,646,861 | 17,435,859 | 211,002 | 1.2% |
| institutional clients* | 10,949,652 | 10,999,414 | (49,762) | (0.5%) |
| individual clients | 6,697,209 | 6,436,445 | 260,764 | 4.1% |
| Impairment, including: | (563,421) | (585,406) | 21,985 | (3.8%) |
| dues related to matured derivative transactions | (60,057) | (67,678) | 7,621 | (11.3%) |
| Total loans to customers, net | 18,860,053 | 18,975,471 | (115,418) | (0.6%) |
| Provision coverage ratio** | 89.2% | 82.8% | | |
| institutional clients* | 87.3% | 87.6% | | |
| individuals | 89.7% | 78.0% | | |
| Non-performing loans ratio (NPL) | 2.9% | 3.2% | | |

*Institutional clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions

acting for the benefit of households.

**Including IBNR provision.

In comparison with 2015, the value of impaired loans decreased by PLN 61 million (i.e. 9.7%) which was the effect of improvements in the quality of both the portfolio of institutional clients and of the consumer portfolio and also of regularly writing off retail receivables with recognized credit losses from the balance sheet. At the same time the ratio of non-performing loans (NPL) decreased from 3.2% to 2.9% in 2016.

The Bank's Management Board believes that provisions for loan receivables as at the balance sheet date represent the best estimate of the actual impairment of the portfolio. Individual accounting for receivables is based on the discounted forecast of future cash flows associated with repayment of the receivables or recoveries from the collaterals. Group accounting is based on loss indicators calculated based on a reliable, historical database of clients who have problems with paying their liabilities to the Bank. For exposures with no indication of impairment, depending on the risk profile and on the basis of the Limit Risk Rating, taking account of expected recovery rates based on collateral, the probability of client's default and historical loss at default, impairment write-downs are calculated.

As at 31 December 2016 the impairment of the portfolio was PLN 563.4 million, which represented a decline by 3.8% from PLN 585.4 million at the end of December 2015. The decrease in impairment referred mainly to the clients for whom the Bank uses the individual approach (by PLN 40.7 million, i.e. 13.7%). There was an increase in impairment related to incurred but not reported losses (IBNR) (an increase by PLN 14.8 million, i.e. 22.7%). The provision coverage ratio remains stable at 2.9%.

Impairment of the customer loan portfolio

| PLN '000 | As at | | Change | |
|---|----------------|----------------|-----------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Impairment due to incurred but not reported (IBNR) losses | 79,735 | 64,968 | 14,767 | 22.7% |
| Impairment of receivables | 483,686 | 520,438 | (36,752) | (7.1%) |
| accounted for individually | 255,605 | 296,332 | (40,727) | (13.7%) |
| accounted for collectively | 228,081 | 224,106 | 3,975 | 1.8% |
| Total impairment | 563,421 | 585,406 | (21,985) | (3.8%) |
| Provision coverage ratio (total loans) | 2.9% | 3.0% | | |

1.3 Off-balance-sheet commitments

As at 31 December 2016, exposure from conditional commitments granted by the Group amounted to PLN 16,889.2 million, representing a decrease of 6.4% compared to 31 December 2015. The largest share in the total conditional commitments granted are still promised loan commitments (i.e. 79%), which decreased by PLN 1,286.7 million. Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

| PLN '000 | As at | | Change | |
|---|-------------------|-------------------|--------------------|---------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Guarantees | 2,131,868 | 2,101,477 | 30,391 | 1.4% |
| Letters of credit issued | 144,829 | 160,065 | (15,236) | (9.5%) |
| Third-party confirmed letters of credit | 1,023 | 335 | 688 | 205.4% |
| Committed loans | 13,331,401 | 14,618,126 | (1,286,725) | (8.8%) |
| Underwriting other issuers' securities issues | 1,246,100 | 1,138,000 | 108,100 | 9.5% |
| Other | 33,944 | 29,531 | 4,413 | 14.9% |
| Total | 16,889,165 | 18,047,534 | (1,158,369) | (6.4%) |
| Provisions for off-balance sheet liabilities | 7,215 | 10,451 | (3,236) | (31.0%) |
| Provision coverage ratio | 0.04% | 0.06% | | |

As at 31 December 2016, the total amount of collateral established on accounts or on assets of the Bank's borrowers amounted to PLN 3,993 million, whereas as at 31 December 2015 it stood at PLN 3,430 million.

2. External funding

The total external funding of the Bank (from clients and banks) stood at PLN 36.2 billion as at the end of 2016 and was PLN 2.3 billion (i.e. 6.0%) lower than at the end of 2015. The largest share of changes in external financing of the Bank's operations was attributable to funds obtained from banks, which decreased by PLN 4.7 billion (i.e. 66.8%) due to a decrease in time deposits and liabilities arising from securities sold under repurchase agreements. On the other hand, there was an increase in current accounts of non-banking sector clients by PLN 2.6 billion, i.e. 12.5% y/y. An increase in time deposits from banks was recorded as well: by PLN 4.0 billion (i.e. -88.7%).

Group's funding from banks

| PLN '000 | As at | | Change | |
|--|------------------|------------------|--------------------|----------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Current account | 1,466,809 | 681,202 | 785,607 | 115.3% |
| Term deposits | 503,520 | 4,460,693 | (3,957,173) | (88.7%) |
| Loans and advances received | 128,026 | 198,203 | (70,177) | (35.4%) |
| Liabilities from securities sold under agreement to repurchase | 212,372 | 1,623,456 | (1,411,084) | (86.9%) |
| Other liabilities | 15 | 7 | 8 | 114.3% |
| Total funding from banks | 2,310,742 | 6,963,561 | (4,652,819) | (66.8%) |

Group's funding from customers

| PLN '000 | As at | | Change | |
|--|-------------------|-------------------|------------------|----------------|
| | 31.12.2016 | 31.12.2015 | PLN '000 | % |
| Deposits of financial sector entities | | | | |
| Current accounts | 671,625 | 226,438 | 445,187 | 196.6% |
| Term deposits | 4,024,501 | 3,154,694 | 869,807 | 27.6% |
| | 4,696,126 | 3,381,132 | 1,314,994 | 38.9% |
| Deposits of non-financial sector entities | | | | |
| Current accounts, including: | 22,301,469 | 20,194,711 | 2,106,758 | 10.4% |
| Corporate clients | 10,895,348 | 10,454,683 | 440,665 | 4.2% |
| Individuals | 8,280,082 | 7,074,422 | 1,205,660 | 17.0% |
| Public entities | 3,126,039 | 2,665,606 | 460,433 | 17.3% |
| Term deposits, including: | 6,821,412 | 7,699,698 | (878,286) | (11.4%) |
| Corporate clients | 5,041,859 | 5,972,704 | (930,845) | (15.6%) |
| Individuals | 1,668,893 | 1,667,610 | 1,283 | 0.1% |
| Public entities | 110,660 | 59,384 | 51,276 | 86.3% |
| | 29,122,881 | 27,894,409 | 1,228,472 | 4.4% |
| Total deposits | 33,819,007 | 31,275,541 | 2,543,466 | 8.1% |
| Other liabilities | | | | |
| Liabilities from securities sold under agreement to repurchase | - | 188,505 | (188,505) | (100.0%) |
| Other liabilities, including: | 117,504 | 122,257 | (4,753) | (3.9%) |
| Cash collateral | 80,622 | 99,207 | (18,585) | (18.7%) |
| | 117,504 | 310,762 | (193,258) | (62.2%) |
| Total funding from customers | 33,936,511 | 31,586,303 | 2,350,208 | 7.4% |

3. Interest rates

The table below presents weighted average effective interest rates of receivables and payables by the respective business segments of the Group:

As at 31 December 2016

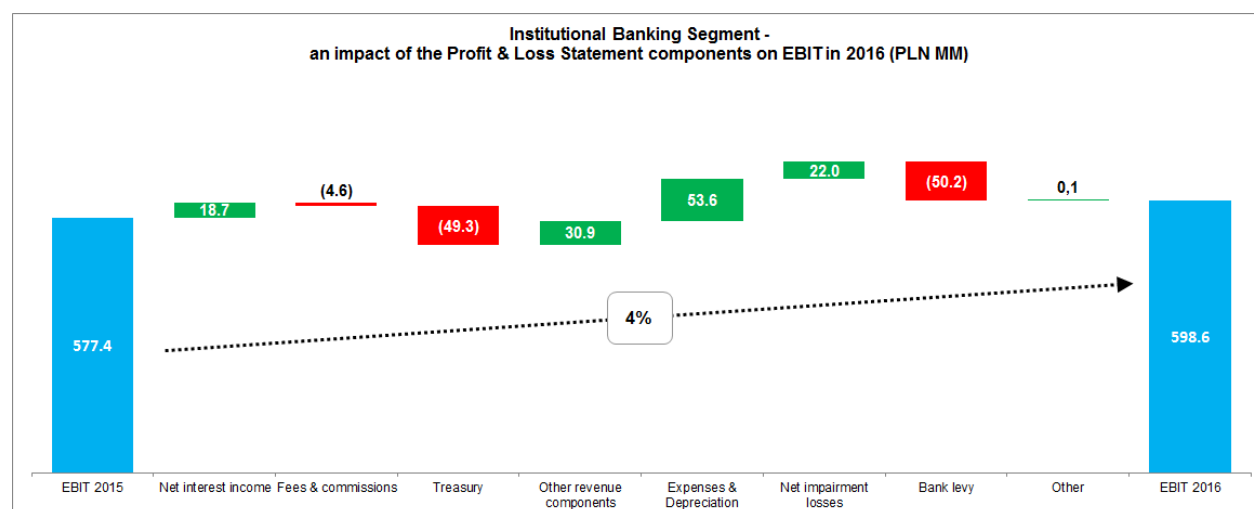
| in % | Institutional Bank | | | Consumer Bank | | |
|---|--------------------|------|------|---------------|------|------|
| | PLN | EUR | USD | PLN | EUR | USD |
| ASSETS | | | | | | |
| Receivables from banks and customers | | | | | | |
| - fixed term | 2.93 | 1.35 | 1.80 | 9.50 | 4.00 | - |
| Debt securities | 1.94 | 0.11 | 1.13 | - | - | - |
| LIABILITIES | | | | | | |
| Liabilities towards banks and customers | | | | | | |
| - fixed term | 1.30 | 0.36 | 0.57 | 0.74 | 0.10 | 0.22 |

As at 31 December 2015

| in % | Institutional Bank | | | Consumer Bank | | |
|---|--------------------|------|------|---------------|------|------|
| | PLN | EUR | USD | PLN | EUR | USD |
| ASSETS | | | | | | |
| Receivables from banks and customers | | | | | | |
| - fixed term | 2.91 | 1.41 | 1.47 | 10.71 | 4.00 | - |
| Debt securities | 2.08 | 0.45 | 1.30 | - | - | - |
| LIABILITIES | | | | | | |
| Liabilities towards banks and customers | | | | | | |
| - fixed term | 1.42 | 0.31 | 0.54 | 1.11 | 0.20 | 0.20 |

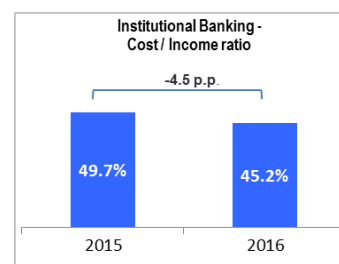
4. Institutional Banking Segment

4.1 Summary of segment's results



In 2016, the Corporate and Commercial Bank segment recorded an increase in gross profit of PLN 21.2 million, i.e. 3.7%. The profit before tax of the Corporate and Commercial Bank segment in 2016 compared to the previous year was driven mainly by the following factors:

- Net interest income at PLN 439.6 million as against PLN 420.9 million in 2015 – an increase by PLN 18.7 million which is mainly a consequence of higher net interest income on client activities owing to higher interest margins;
- Net fee and commission income in the amount of PLN 275.3 million as compared to PLN 279.9 million in 2015, caused, inter alia, by a decrease in commission on brokerage activities (the result of falling turnover on the Warsaw Stock Exchange);
- The result on financial instruments held for trading and revaluation of PLN 315.6 million – an increase by PLN 49.6 million y/y, being primarily the consequence of a higher result on client activities;
- The result on investment debt securities amounting to PLN 44.7 million – the result is lower by PLN 100.5 million compared to the previous year, mainly owing to less favorable market conditions;
- Net income on investment equity instruments available for sale amounted to PLN 29.4 million, i.e. an increase of PLN 27.2 million y/y due to the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. having been posted;
- Operating expenses and amortization and depreciation in the amount of PLN (514.0) million compared to PLN (567.6) million in 2015 – a decrease of PLN 53.6 million which has mainly been the result of the one-time contribution to the Bank Guarantee Fund intended for the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa (co-operative bank) in Wołomin;
- The cost to income ratio decreased by 4.5 p.p. since there was a significant decline in overhead expenses;
- A higher positive result was reported in the net impairment write-down category, i.e. PLN 25.5 million as against PLN 3.5 million in 2015; this was the result of the recovery of written-off receivables from Commercial Bank clients.



4.2 Institutional Bank

As regards corporate and commercial banking, the Group provides comprehensive financial services to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of 2016, the number of institutional clients (including strategic, global and corporate banking clients) amounted to 6,200, a decline of 9% compared to 2015 when the number of clients reached 6,800. As part of the Commercial Bank (small and medium businesses, large enterprises and the public sector) the Group provided services to 3,800 clients as at the end of 2016 (which means a decrease of 16% as compared to 4,500 clients at the end of 2015).

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Group provides coordination of the investment banking, treasury and cash management products offered, and prepares loan offers involving diverse forms of financing. The innovative, competitive and innovative financing structures offered by the Group rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

Assets*

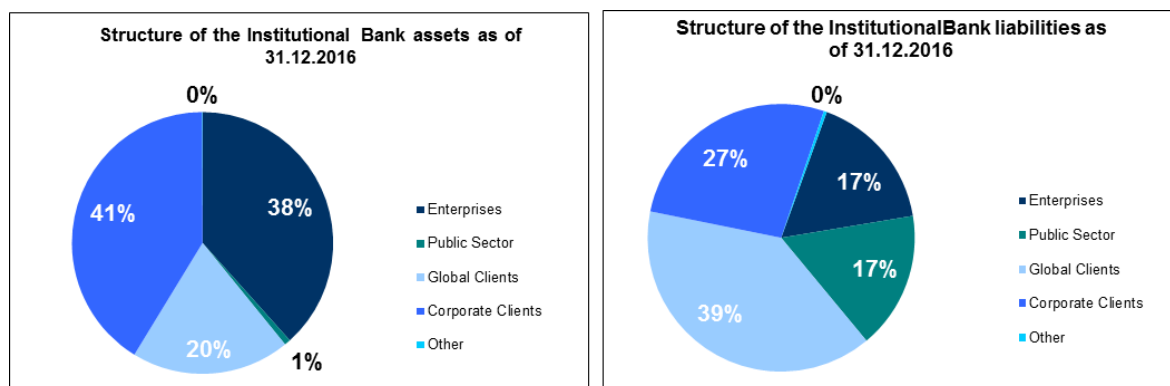
| PLN million | 31.12.2016 | 31.12.2015 | Change | |
|---------------------------------|---------------|---------------|-------------|-----------|
| | | | PLN million | % |
| Enterprises*, including: | 4,669 | 4,433 | 236 | 5% |
| SMEs | 1,873 | 1,797 | 76 | 4% |
| Large enterprises | 2,796 | 2,636 | 160 | 6% |
| Public Sector | 92 | 95 | (3) | (3%) |
| Global Clients | 2,389 | 3,370 | (981) | (29%) |
| Corporate Clients | 5,016 | 3,379 | 1,637 | 48% |
| Other** | 7 | 12 | (5) | (42%) |
| Total Institutional Bank | 12,173 | 11,289 | 884 | 8% |

Liabilities

| PLN million | 31.12.2016 | 31.12.2015 | Change | |
|---------------------------------|---------------|---------------|--------------|-----------|
| | | | PLN million | % |
| Enterprises*, including: | 3,876 | 3,702 | 174 | 5% |
| SMEs | 2,428 | 2,605 | (177) | (7%) |
| Large enterprises | 1,448 | 1,097 | 351 | 32% |
| Public Sector | 3,823 | 3,181 | 642 | 20% |
| Global Clients | 9,031 | 9,442 | (411) | (4%) |
| Corporate Clients | 6,225 | 5,368 | 857 | 16% |
| Other** | 86 | 197 | (111) | (56%) |
| Total Institutional Bank | 23,041 | 21,890 | 1,151 | 5% |

* Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).

*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.



Key transactions and successes of the Institutional Bank in 2016:

- As part of the financing for the Bank's Corporate Client segment:
 - The Bank served as the Joint Lead Manager in two benchmark issues of PLN bonds for a financial sector client. In April 2016, 5-year bonds amounting to PLN 1.75 billion were successfully issued, and in September 2016, 10-year

- bonds were issued amounting to PLN 1.1 billion;
- The Bank completed the securitization of receivables under consumer loans for a foreign bank operating in the Polish; the transaction amounted to PLN 1 billion in the form of a loan;
 - The Bank, in cooperation with another bank, signed an agreement with the leader in the Polish postal services market concerning a short- and medium-term bond issuance program amounting to up to PLN 700 million. The Bank acted as, *inter alia*, Arranger and Dealer;
 - The Bank, together with a consortium of other banks, signed a loan agreement with a leading radio diffusion and radio communication operator in Poland, amounting to PLN 1.7 billion; BHW's share in financing was PLN 190 million;
 - The Bank, in cooperation with other banks, signed a revolving loan agreement with one of the largest manufacturers of chemical raw materials in Poland, amounting to EUR 220 million; the Bank's share in financing was EUR 30 million;
 - The Bank granted 3-year financing amounting to PLN 150 million to a client from the pharmaceutical industry;
 - The Bank carried out four transactions to hedge long-term bonds for a public sector client (USD/EUR hedge with a tenor of 10 years);
 - Together with Dom Maklerski Banku Handlowego w Warszawie S.A. (brokerage house) the Bank was selected as Joint Lead Arranger for a public issuance of bonds by a client who organizes trading in financial instruments;
 - The Bank issued 550 business cards to one of the leading clients from the insurance industry;
 - The Bank established a new relationship with a client from the investment fund industry; the Bank acts as a depositary.
- The Bank closed, among others, the following transactions with clients from the Global Subsidiaries segment:
 - Signing a loan agreement with one of the major manufacturers from the FMCG sector to increase the amount of a 3-year loan from PLN 100 million to PLN 200 million and of an authorized overdraft from PLN 60 million to PLN 100 million as part of a successful tender for cooperation in the area of bank account and financing services;
 - Granting loans: PLN 200 million for a leading company from the trade sector, PLN 110 million for a leading company from the automotive industry, PLN 50 million for a major client from the alcohol beverage industry, PLN 50 million for a leading company from the real estate industry and EUR 6 million for a company from the leasing industry;
 - Signing agreements concerning supplier financing with two strategic companies from a major German energy group present in Poland (PLN 30 million) and with a leader of the FMCG market;
 - Establishing new relationships with: a company from the real estate industry; with companies from the chemical industry concerning bank account products and FX transactions, with one of the leaders from the packaging industry and from the automotive industry concerning comprehensive banking services; with a company from the IT industry, one of the largest providers of hotel booking services in the world concerning bank account products and Direct Debit;
 - Successful tendering for providing comprehensive banking services to a major player in the cigarette sales market and one of the leaders in the alcoholic beverage industry and also winning consecutive escrow accounts related to servicing the investment projects of one of the leaders in the construction industry;
 - Successful tendering for the handling of cash deposits for one of the leaders from the retail industry and for the introduction of direct debits for one of the leaders from the telecommunications industry;
 - BHW now provides banking services to an Emerging Market Champion from the automotive industry and for a client from the retail industry that used to be provided by other banks;
 - Signing a contract for servicing an escrow account for one of the largest clients from the automotive industry;
 - Successful tendering for the issuance of business cards (400 pieces) to a client from the automotive industry and initiating cooperation in the FX services area.
 - The Bank granted loans to the following clients from the Commercial Bank segment: a long-term authorized overdraft amounting to PLN 120 million to a leading manufacturer of ceramic tiles; a long-term loan amounting to PLN 95 million to a producer of coke, coal derivatives and coal gas; an operating loan amounting to PLN 90 million to a producer of cold-rolled flat steel products; increased by PLN 50 million the amount of a revolving loan granted against a guarantee for the construction of other civil and hydraulic engineering structures; a PLN 40 million revolving loan against a guarantee for the manufacturing of buses;
 - Since the beginning of 2016, Commercial Bank has continued its series of meetings with clients (Market Pulse – Macroeconomic Meetings). The Sub-Sector of Financial Markets together with the Office of the Bank's Chief Economist presented macroeconomic forecasts for the global and Polish economies to clients. At the same time, the CyberSecurity Global Workshop was held, which was devoted to cybersecurity and secure electronic payments;
 - Additionally, the Bank continued its interactive financial risk management workshops (CitiFX Hedge Game), which are a unique proposition in the Polish market, enabling clients to learn how to efficiently manage financial risk using derivative instruments;

- Acquisition of clients: the Commercial Banking segment acquired 292 new clients in 2016, including 49 Large Enterprises, 231 Small and Medium-Sized Enterprises, and 12 Public Sector entities. The Bank acquired 29 client relations in the Strategic Clients and Global Clients segment.

4.3 Treasury Division Operations

In December, the Bank won the competition of the Ministry of Finance for Treasury Securities Dealers (TSDs) in 2017. This role has been entrusted to us for the fifth time in a row, which confirms the Bank's leadership in this market segment. The Bank has been consistently involved in the promotion of the Polish market and has actively contributed to the development of the domestic debt issuance policy for several years.

In May 2016, the Bank received two awards from BondSpot S.A. For another year in a row, we were honored for the highest turnover on the Treasury BondSpot Poland spot market and for achieving the position of a Treasury BondSpot Poland market making leader in 2015.

According to the "Rating & Market" report by Fitch Ratings, at the end of 2016 the Bank held a 15% market share as an arranger of issues of bonds and certificates of deposit for banks and was ranked second among other market participants.

The CitiFX Pulse electronic platform remains very popular among clients. Nearly 80% of all foreign exchange transactions are executed using this platform. The tool is being constantly developed and expanded to include new functionalities. In 2016, we integrated the SEPA Direct Debit service with the CitiFX Pulse currency platform, giving clients even more control over payments and the related currency exchange process. Thanks to the CitiFX Pulse electronic platform, clients can trade on their own 24/7, access market data before closing the deal, and use functionalities supporting the analysis of currency exposures.

In 2016, the Bank was active in the market of debt securities and syndicated loans by participating in the following transactions:

- Closing a PLN 1.25 billion securitization deal for a banking sector client in Poland; as a result of this transaction, which was a first executed for a Polish financial institution, the client obtained financing and participation exemption;
- Conducting a syndicated issue of 5-year bonds amounting to PLN 1.75 billion for the European Investment Bank;
- Conducting a syndicated issue of 10-year bonds amounting to PLN 1.1 billion for the European Investment Bank;
- Closing a new lending deal as a bank club for a client from the automotive spare parts distribution industry, amounting to up to PLN 1.1 billion;
- Joining the existing program by a leasing company from the Issuer's group within the framework of a bond issuance program amounting to up to PLN 500 million;
- Closing a new lending deal as a bank club for a publishing industry client of up to PLN 390 million;
- Concluding a new bond issuance program for a company from the financial services sector listed on the WSE, amounting to up to PLN 120 million.

4.4 Transaction services

The Bank is a leading provider of transactional banking services in Poland. The transactional banking offer includes the following products and services:

- Cash management products: deposits and current accounts, liquidity management products, MicroDeposits and e-banking;
- Cards;
- Payment and receivables processing: Direct Debit and Speedcollect;
- Cash products;
- EU-oriented advisory services;
- Trade finance products.

FATCA

Pursuant to the Act of 9 October 2015 on Performing the Agreement Between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA, a number of obligations have been imposed on the Polish financial institutions that involve, *inter alia*, obtaining client tax status declarations, performing documentation reviews and classifying clients.

As a result of coordinated action, the following measures were introduced in many business areas of the Bank:

- an analysis of the changes required was conducted after consultation with advisories;
- a number of changes were introduced to banking systems;
- a campaign, very complex in terms of logistics, was conducted in order to obtain thousands of forms;
- the required operating steps were followed in order to classify clients, and properly document their statuses.

The result of the work was the complete fulfilment of the requirements of the Act implementing the FATCA legislation and ensuring the Bank's compliance in this area while ensuring the clients' smooth transition during the sensitive regulation implementation period, avoiding the blocking of client accounts, which was among the sanctions provided for under the Act.

Standard Audit File for Tax

In 2016, the Bank implemented the reporting of transactions in a format compatible with the Standard Audit File for Tax (the "Bank Statement" structure, i.e. JPK_WB) for the Bank's clients. The solution, which has been available at the Bank since July 2016, enables clients to regularly receive information on banking transactions as well as to order individual reports according to specified criteria (e.g. dates, accounts).

Deposits and current accounts

Current account is the basis for fully using the services the Bank offers. One of the most important elements of pursuing the Bank's strategy is focusing on acquiring and servicing operating accounts – i.e. bank accounts receiving the crucial part of operational cash flow of their owners.

Excess funds accumulated by a client in a current account, i.e. funds that are not required to finance day-to-day operations, may be invested in time deposits or be left in the current account with an increased interest rate. In addition to time deposits, the Bank also sells, among others, negotiated deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management structures are advanced instruments that optimize cash flows for a single client or within a capital group. The liquidity management tools offered by the Bank provide the possibility of optimal management of a cash surplus at over-liquid companies and firms with increased demand for capital. The Bank's liquidity management products include:

- consolidated account;
- real cash pooling;
- net balance.

The use of liquidity management structures allows for debt reduction and for cutting the cost of its service while maintaining financial liquidity, and also allows clients to streamline certain operational processes.

Electronic banking

The Bank offers to institutional clients the CitiDirect platform for electronic banking. The system is made available to clients as a tool for handling daily settlements and for cash management. In 2016, the number of transactions carried out via CitiDirect stood at nearly 26 million. The number of active clients of the electronic banking system at the end of 2016 amounted to nearly 4,500. The share of bank account statements delivered to clients in electronic form only remained high and stable and exceeded 90% just like in the previous years.

In 2016, the Bank consistently implemented the plan for the further commercialization of mobile solutions offered to institutional clients, which was clearly reflected in the increase of the number of transactions executed using this channel and the overall activity of users on this platform. In 2016, institutional clients submitted nearly 62,000 transactions in this manner.

Further work was carried out in order to provide the Bank's clients with a number of new solutions in the area of electronic banking. The most significant changes proposed to clients in 2016 included:

- making available an improved reporting module in the CitiDirect system, which enables more efficient access to file import and export functions;
- making available a new module for handling reports and files and for managing user privileges with the simultaneous transfer of user activities to the new functionality;
- the implementation of the new MobilePASS token as an alternative for those users who want more flexibility in accessing CitiDirect;
- the introduction of additional security mechanisms into CitiDirect, which are designed to further reduce potential risks;
- making available a new online cybersecurity site that makes CitiDirect users aware of online security issues;
- introducing changes concerning SEPA payments that enable the systems to be adapted to new regulations;
- as a pilot project, a feature was made available that enabled selected clients to submit instructions concerning Bank products and services through the eWnioski electronic documentation exchange platform;
- additionally, the development of the Citi Trade Portal trade finance and services platform continued – a number of improvements were made, of which the most important one was the introduction of new Trade Credit functionality both for Sellers and for Buyers.

Receivables management: SpeedCollect, Direct Debit, Cash Products

SpeedCollect is a service that allows automated booking of receivables for creditors who are recipients of bulk payments. In 2016, the Bank remained one of the top leaders in Poland's market in terms of volumes of processed transactions. The volume of transactions remains similar to that in 2015.

Direct Debit. The Bank provides its clients with comprehensive receivable processing services. The direct debit market is a

segment where services of this type are provided. In 2016, the Bank strengthened its position as the market leader and processed the largest number of transactions as the creditor's bank for another year in a row, maintaining its market share at around 45%. At the same time, the Bank began the transition to the digital handling of direct debit authorizations – in 2016, over 45% of authorizations were handled electronically and the number of transactions processed increased by 27% y/y.

Additionally, Citi Handlowy introduced an innovative solution combining the **SEPA Direct Debit product with the Citi FX Pulse currency exchange platform**. It is a novel solution in the Polish market and an important element that makes the Bank's offerings stand out among the competition. The SEPA Direct Debit combined with the Citi FX Pulse currency exchange is ideal for companies that perform regular settlements with counterparties from the eurozone (import, logistics and transport, administrative charges and local taxes). The solution enables, *inter alia*, full payment automation and reduces the risk of delays.

Cash products. The Bank provides its clients with comprehensive cash management services. A vast majority of over-the-counter deposits are sealed, i.e., they are delivered to the Bank in sealed packages and counted without the client being present. The service may be provided nationwide at more than 1,200 locations. The share of cash in domestic transactions remains at a constant, very high level. Additionally, the Bank provides open deposit services at more than 4,500 locations thanks to its partnership with Poczta Polska S.A.

Cash deposits may be made directly into clients' accounts with the Bank. However, in view of the clients' needs for the automation of cash deposit management processes and the correct identification of deposits originating from different client locations or from different payers, the Bank offers clients the option to make cash deposits into virtual accounts; as a result, the information necessary to identify deposits is included directly in the account number, which minimizes the risk of incorrect (unidentified) payments.

In order to meet the clients' needs, the Bank has introduced a solution designed to optimize the activities related to the preparation of sealed deposits, accessing the status of the sealed deposits made and the reporting of expected funds.

In addition to deposits, the Bank's clients also use cash withdrawals – both traditional over-the-counter withdrawals and sealed cash packages.

With a view to better alignment with the clients' needs and a focus on customer service at locations that are key to its clients, the Bank expanded its partnership with Poczta Polska S.A. The Bank's offerings include cash withdrawals commissioned using the Bank's electronic banking system and effected at all branches of Poczta Polska S.A. nationwide. In 2016, the number of withdrawals effected at Poczta Polska offices increased by 100% compared to 2015.

Non-cash payments

The Bank boasts a comprehensive and very extensive settlement offering in over 130 currencies throughout the world. Integrated settlement services include a compilation of remote access channels and product offerings in the area of international settlements. In response to the clients' needs, the Bank introduced a multi-currency account which enables clients to execute fund transfers in exotic currencies in a simple, convenient and effective manner with no need for opening foreign currency accounts and maintaining local accounts abroad. The Bank's offering provides a unique approach in the Polish market given the range of available currencies. In the first half 2016, the Bank introduced a new currency – the Kazakhstani tenge (KZT) – into its range of settlement services offered. The currency was previously only available for outgoing transfers within the framework of the Multicurrency Account. Currently, clients are able to both send and receive transfers in the Kazakhstani tenge.

Automating Financial Institution (FI) payments – a project was implemented that allowed the STP ratio to be raised from 0% to 95%. The value of automated transactions exceeds PLN 128 billion per month. The change has significantly raised the transaction security level and the transaction digitization level at the bank, and above all significantly improved the quality of the services provided to clients.

Electronic Money Orders

The electronic money order is a product addressed to institutional clients that transfer cash to individuals. In 2016, the Bank processed about 370,000 orders, thus reporting a slight increase as compared to the same period of 2015.

Business cards

In the Charge and Guaranteed Card area, the Bank recorded, as compared to 2015, an increase in the number of cash transactions, and an increase in the value and number of cashless transactions by 2% to 4%. That was attributable to the consistent policy of attracting high transaction volumes and activating the portfolio of existing clients.

Prepaid cards

In 2016, the Bank reported a significant increase in the value of non-cash transactions executed with prepaid cards compared to the same period of 2015. The number of non-cash transactions increased by 48% while the value of transactions with prepaid cards increased by 31% y/y. The Bank also increased the number of issued cards by almost 60% compared to 2015. This considerable increase in the number of cards issued was driven by the largest transaction so far in the Polish corporate prepaid card market, which the Bank carried out in cooperation with its business partner.

In 2016, the Bank introduced a second payment organization for prepaid cards and now issues both VISA and Mastercard prepaid cards.

EU-oriented advisory services

In 2016, the Bank participated in certain measures related to the EU Financial Perspective 2014–2020 where banks are important partners in the distribution of European funds and in the financing of investments co-financed with subsidies and repayable assistance instruments. Those measures included primarily the participation in the work of thematic working groups of the Polish Bank Association and cooperation with Bank Gospodarstwa Krajowego, which implemented the "Loan

for Technological Innovation" project within the framework of the Smart Growth Operational Program in order to finance innovative projects by small and medium-sized enterprises (SMEs).

Activities related to the implementation of the ELENA Program were also conducted. The Program, which is implemented pursuant to the agreement concluded by the Bank with the Kreditanstalt für Wiederaufbau, provides local government units with funds to cover the cost of projects aimed at increasing energy efficiency that are in line with the EU 20-20-20 strategy.

Trade finance products

In 2016, Trade Finance continued to focus on the development of financial products, winning new clients and developing active programs. Throughout the year, it managed to maintain a stable level of assets; in December 2016, this reached its peak on an annual basis and was 20% higher than in December 2015.

This was possible thanks to the sales campaigns, targeted mainly at small and medium-sized enterprises, and thanks to the development of existing programs with major corporate clients.

In 2016, the Bank completed work on the streamlining of operational processes by completing the implementation of its electronic platform. The Platform now covers the entire range of 12 Trade products. It has replaced six systems and applications used previously, which should bring annual savings of PLN 1.25 million. The portal currently serves 692 clients (2,200 users) – by implementing electronic platforms, 100% of financial transactions were processed on the basis of electronic applications and in the field of documentary operations, almost 90% of transactions were conducted on the basis of electronic orders as well. This enabled a significant acceleration of transactions, reduced handling costs and eliminated some potential operational risks. In total, the Bank processed more than 360,000 transactions and applications received through the electronic platform.

Key trade finance transactions in 2016 included:

- Granting around a dozen trade loans to clients from the small and medium-sized enterprise segment, amounting to PLN 110 million in total;
- Extending by another year the operation of the bank consortium that supports one of the biggest oil inventory financing transactions in the Polish market at PLN 200 million;
- Granting financing amounting to more than PLN 150 million to a company from the mining industry;
- Increasing aggregate credit limits under the Supplier Finance Program by PLN 150 million;
- Inclusion of more than 100 new suppliers in the Supplier Finance Program on both local and regional levels.

4.4.1 Custody services

The Bank provides custody services under Polish regulations and in compliance with international standards for custody services offered to investors and intermediaries active on international securities markets. The Bank is able to meet the requirements of the largest and most demanding institutional clients.

Citi Handlowy has maintained its position of a market leader among custodian banks in Poland. The Bank provides custody services to domestic and foreign institutional investors and depositary bank services to domestic pension and investment funds.

As part of its statutory activities provided on the basis of a permit from the Securities and Exchange Commission (currently the Polish Financial Supervision Authority), the Bank operates securities accounts, clears securities trades, executes dividend and interest payments, performs asset portfolio valuations, provides individual reports, and arranges representation of clients at general shareholders' meetings of public companies. The Bank maintains omnibus accounts for authorized foreign entities. The Bank also provides the service of maintaining a registry of foreign securities, which includes mediation in clearing transactions of domestic clients in foreign markets.

In December 2016, the Bank implemented a new service related to maintaining accounts in the client's name with KDPW S.A. (National Depository for Securities), including the transfer of instructions received from the client to KDPW S.A. and *vice versa* – settlement confirmations and statements from the entity's accounts opened at KDPW S.A. for the Bank's client. The service is targeted at foreign depository and settlement institutions (financial entities with the ICSD status) and includes the handling of securities accounts and omnibus accounts of such entities.

In the reporting period the Bank maintained a leading position in the market for the clearing of transactions in securities executed for remote members of Giełda Papierów Wartościowych w Warszawie S.A. and BondSpot S.A. In addition, the Bank was the leader in the clearing of transactions made by foreign institutional clients on the electronic platform for trading in debt securities operating under the name of Treasury BondSpot Poland, organized by BondSpot S.A.

As at 31 December 2016, the Bank maintained over 9,200 securities accounts.

At the same time, the Bank served as depositary for four open-end pension funds (OFE): Aviva OFE Aviva BZ WBK, Nationale-Nederlanden OFE, Pekao OFE, Nordea OFE; three voluntary pension funds: Nationale-Nederlanden DFE, DFE Pekao and Generali DFE, and also for the Orange Polska Occupational Pension Fund.

The Bank was a custodian bank for investment funds managed by the following fund management companies (TFI): BZ WBK TFI S.A., PKO TFI S.A., Legg Mason TFI S.A., Aviva Investors Poland TFI S.A. and Templeton Asset Management (Poland) TFI S.A.

In 2016, the Bank continued its activities aimed at improving the legal regulations concerning the securities market. A representative of the Bank was the Chair of the Bureau of the Council of Custodian Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council took an active part in the process of setting agreement standards and recommending good practices related to the performance of depositary functions in

connection with the performance of investment fund depositary duties with respect to the requirements of the EU AIFMD and UCITS V Directives.

The Council was actively involved in the evaluation of other draft legal acts related to operations of domestic custodian banks. Based on the Bank's resources, experience and competences, employees of the Bank in cooperation with the Polish Financial Supervision Authority, KDPW S.A. (National Depository for Securities), KDPW_CCP S.A. (National Depository for Securities – Central Counterparty) and the Warsaw Stock Exchange participated in consultations on the implementation of new solutions in the Polish capital market through working groups established at the Polish Bank Association and also through market working groups. Among other things, the Council actively participated in agreeing the plan for implementing in the market the projects related to adapting to the provisions of the Central Securities Depository Regulation (CSDR) and analyzed the opportunities for participating in new technology projects based on the distributed ledger concept.

4.5 Brokerage Activity

The Group pursues brokerage activities on the capital market via the Dom Maklerski Banku Handlowego S.A. ("DMBH") brokerage house, which is wholly owned by the Bank.

In 2016, DMBH brokered session transactions representing 10.3% of equity turnover in the secondary market and ranked first in the market for the eighth time in a row. This was a market share similar to the level recorded in 2015. The value of session transactions executed via DMBH in the equity market on the Warsaw Stock Exchange (WSE) amounted to PLN 39.0 billion and declined by 9.5% in relation to the previous year while trading on the WSE decreased by 6.9%.

At the end of 2016, DMBH was the Market Maker for the shares of 63 companies listed on the Warsaw Stock Exchange (including 20 covered by the WIG20 blue chip index). That represented 13.0% of all shares traded on the WSE main market.

In the retail client segment, DMBH reported record results in 2016, to which the very successful subscriptions for closed-end investment fund certificates organized in cooperation with the Bank and the sale of Treasury bonds contributed. 2016 also saw considerable activity by retail clients using the CitiFX Stocks transactional platform, which enables trading in shares and ETF instruments listed on major foreign exchanges as well as OTC FX instruments using financial leverage. Owing to advisory services, which are increasingly popular among CPC clients, fee and commission income in foreign markets grew significantly, offsetting the decrease in client activity, which has been observed on the Warsaw Stock Exchange for several quarters now, to a significant extent.

The number of brokerage accounts maintained by DMBH at the end of 2016 was 12,400 and increased by 18% compared to the previous year. The number of accounts increased primarily due to the large number of brokerage service agreements concluded for the FX and foreign market services provided via the CitiFX Stocks platform.

In 2016, DMBH carried out the following transactions on the capital market:

- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the second tranche of the share buyback program implemented by Stalprodukt S.A.; the value of the second tranche of the program amounted to PLN 89.6 million (February 2016);
- Stalprodukt S.A. – DMBH acted as an intermediary in the tender offer process related to the third tranche of the share buyback program implemented by Stalprodukt S.A.; the value of the third tranche of the program amounted to PLN 89.6 million (April 2016);
- DTP S.A. – DMBH acted as an intermediary in a tender offer for DTP S.A. and in the squeeze out in which the entity announcing the tender offer and performing the squeeze out was PRAGroup Polska sp. z o.o.; transaction value amounted to PLN 174.5 million (the tender offer transaction was settled in April and the squeeze out – in June 2016);
- Bank Pekao S.A. – DMBH played the role of the Joint Book Runner for the sale of own shares held by Unicredit S.p.A.; the transaction amount was PLN 3.3 billion (the transaction was settled in July 2016).

Summary financial data as at 31 December 2016*

| Company | Headquarter | % of authorized Capital/votes in GM held by the Bank | Balance sheet total | Equity | Net financial profit/loss for 2016 |
|--|-------------|---|------------------------|----------|---------------------------------------|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Dom Maklerski Banku Handlowego S.A. | Warszawa | 100.00 | 406,650 | 109,224 | 12,694 |

*pre-audit data

4.6 Leasing

In connection with the decision of the Bank's Management Board made in March 2013 to limit the scope of leasing activities of the Bank's Group, the scope of activities of Handlowy-Leasing Sp. z o.o. ("Handlowy-Leasing" or "HL") was restricted to handling lease agreements entered into by 30 April 2013. No new lease contracts were concluded after that date by Handlowy-Leasing. The goal of the Company is to continue to service existing agreements, maintaining the service quality and ensuring process continuity and the economic efficiency in its business.

The leasing product continues to be offered by the Bank; however, it is made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group. Currently, leasing services are provided under a cooperation agreement by two partners: Europejski Fundusz Leasingowy S.A. and CorpoFlota Sp. z o.o.

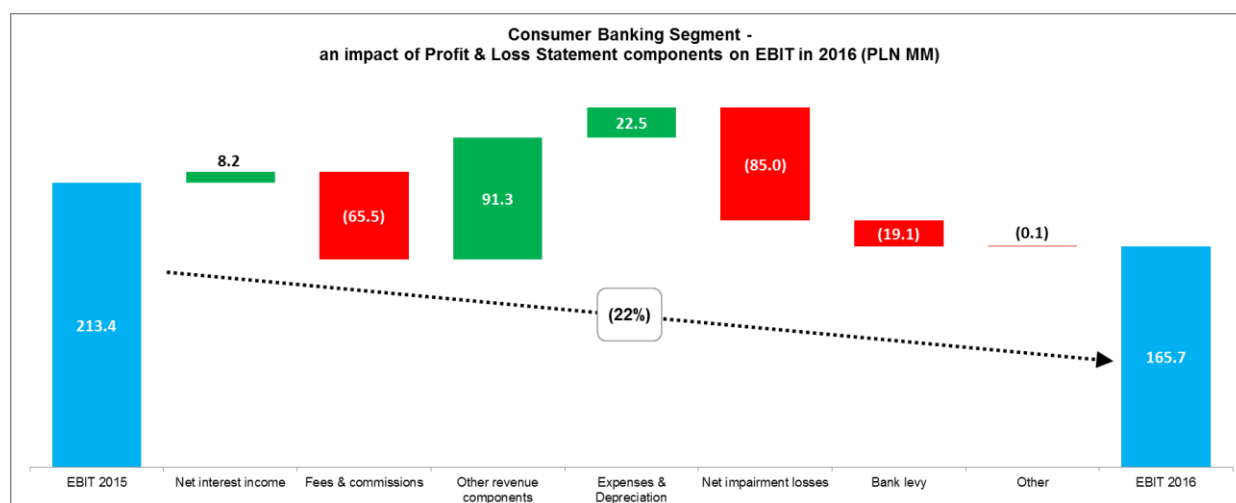
Summary financial data as at 31 December 2016*

| Company | Headquarter | % of authorized Capital/votes in GM held by the Bank | Balance sheet total | Equity | Net financial profit/loss for 2016 |
|-----------------------------|-------------|--|------------------------|----------|---------------------------------------|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Handlowy-Leasing Sp. z o.o. | Warszawa | 100.00 | 44,921 | 35,899 | 7,691 |

*pre-audit data

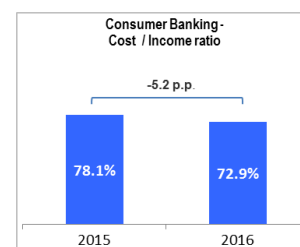
5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2016, the Consumer Banking segment recorded a decline in gross profit of PLN 47.6 million, i.e. 22.3%. The profit before tax of the Consumer Banking segment in 2016 compared to the previous year was driven mainly by the following factors:

- Increase in interest income despite reduced interest rates following changes of market interest rates, which were partially offset by an increase in the loan product portfolio (by 5% y/y) and reduced interest expenses. Despite a significant increase in deposit volumes (by 14% y/y), the decrease of interest costs was driven by a reduction of interest rates which were brought in line with the market rates (interest rates were reduced mainly for savings accounts and deposits) as well as by a positive change in the composition of the deposit portfolio (growing share of current accounts and decreasing share of time deposits);
- The decline in net fee and commission income recorded on investment products (as a consequence of the deteriorated market sentiment) and credit insurance (due to new regulatory requirements concerning group insurance) was partially offset by the implementation of new insurance products, both credit and non-credit ones, and the alignment of the table of fees and commissions to the model of client segmentation in line with the Bank's strategy, i.e. preferential treatment only for clients with an in-depth relationship with the Bank (free of charge accounts, preferential rates for conversions and free investment advice);
- The increase in other income components due to the increase in income from investment equity securities available for sale by PLN 66.5 million as a result of posting the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. and higher dividend income as well as profit on financial instruments held for trading (an increase in conversion transaction volumes related to Gold clients and credit cards);
- A decrease in operating costs as a result of restructuring; a large part of the savings generated was invested in marketing;
- The cost to income ratio decreased by 5.2 percentage points since payroll expenses were reduced;
- The establishment of net impairment write-downs in 2016 amounting to PLN 71.2 million compared to a reversal of net impairment write-downs amounting to PLN 13.7 million in 2015 as a result of the increase in the average age of the impaired loan portfolio as well as the increase in IBNR provisions caused by the growth of the loan portfolio.



5.2 Selected business data

| | 2016 | 2015 | Change PLN '000 | % |
|---|-------|-------|--------------------|---------|
| Number of individual customers | 680.8 | 682.9 | (2.1) | (0.3%) |
| Number of current accounts, including: | 457.9 | 464.6 | (6.7) | (1.4%) |
| number of operating accounts* | 89.5 | 93.6 | (4.1) | (4.4%) |
| Number of operating accounts newly acquired in the period | 51.3 | 61.4 | (10.1) | (16.4%) |
| Number of savings accounts | 150.1 | 160.4 | (10.3) | (6.4%) |
| Number of credit cards, including: | 698.6 | 697.0 | 1.6 | 0.2% |
| Number of debit cards, including: | 248.3 | 276.7 | (16.3) | (6.2%) |

* Change in the methodology in 2016. 2015 was adjusted.

5.3 Key business achievements

Bank accounts

Current accounts

The total account balance increased by over 28% and exceeded PLN 5,1 billion. The number of personal accounts at the end of 2016 fell to 458,000 (at the end of 2015 it had amounted to 464,000). Of those, 267,000 were Polish zloty accounts, and 191,000 were foreign currency accounts.

Savings accounts

The number of savings accounts as at the end of 2016 was 150,000. The total balance of funds accumulated in them exceeded PLN 3 billion as against 160,000 savings accounts with a total balance of almost PLN 3 billion in the same period last year.

Changes in the offering

In March 2016, the revised Table of Fees and Charges took effect. For clients with CitiKonto Personal Accounts, charges for debit card withdrawals from ATMs other than those owned by Citi Handlowy and account maintenance charges were increased. Charges for foreign currency accounts were introduced as well.

The changes introduced are consistent with the Bank's strategy. The new model of fees and commissions encourages clients to tighten their relationship with the Bank so that they satisfy the criteria for Citi Priority or Citigold clients who still receive these services free of charge. It should be stressed that no new or higher charges were introduced for clients from the Gold or Citigold Private Client segments.

In April 2016, following a decrease in interest rates on one-month deposits in the Polish interbank market (WIBID 1M), the bonus interest rate on the funds accumulated in the Saver Account in Polish zlotys and the interest rate on the funds accumulated in the SuperSaver Account in Polish zloty were decreased as well. In 2016, interest rates on time deposits did not change.

In 2016, the Bank introduced a number of solutions that have made using its accounts more comfortable and secure. Among other things, in July 2016 it enabled clients to confirm with text message codes the transactions conducted online using a debit card. This feature has increased the clients' online security level.

Since November 2016, as a result of complying with Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 in the area of credit transfers and direct debits in euro, the Bank has facilitated transfers abroad for clients and no longer requires a BIC/SWIFT when such transactions are ordered.

During the year, the Bank continued to focus its acquisition support on the Citigold, Citigold Private Client and Citi Priority client segments through promotional offers and the Citigold Recommendation Program; additionally, the Citi Priority account product has been supported by an online information campaign. Involvement in this area will also continue in 2017. In order to improve Citigold and Citi Priority acquisition, the Bank also expanded its telephone acquisition team for Citigold clients (Tele Gold) and created a new Citi Priority acquisition support team (Tele Priority Bank). In 2016, the Bank also focused on Citigold client retention by introducing a personalized, proactive response process in cases where the client partially withdraws his or her funds from the Bank. The establishment of such a process improved the quality of services for affluent clients, enabling the Bank to know their needs and helping it to adapt its offerings to the clients' expectations.

Credit cards

At the end of 2016, the number of credit cards amounted to 699,000. The debt balance on credit cards at the end of 2016 amounted to PLN 2.3 billion, i.e. was 7.9% higher than that reported for the same period in the previous year. As a result, the Bank consolidated its leading position in the credit card market in terms of the value of credit facilities extended, holding a market share of 25.5% according to figures as at end December 2016.

In 2016, credit card acquisition was higher than in the previous year. A significant increase (by 36%) was observed. Such a large increase was due to the Bank's intense acquisition effort that involved making its credit card offerings more attractive. This resulted in numerous awards in 2016 such as the Golden Banker for the advertising campaign for the Simplicity card and the second place in the Forbes ranking of prestigious cards.

The quality of the clients acquired and the share of the cards issued on the basis of the clients' documented income data improved, which translated into a higher level of card activations and a greater number of card transactions among the newly acquired clients.

The Bank consistently diversifies its acquisition channels while further optimizing its sales processes.

Credit products

Cash advances and instalment products to credit card account

The balance of cash products at the end of 2016 amounted to PLN 2.7 billion, an annual increase of 2.2%. Total sales of cash products reached PLN 1.4 billion in 2016.

In 2016, the Bank continued its model for the sales of cash products as revised in 2014, focusing on sales through remote processes such as telephone sales or sales via the Bank's online platform and simple direct sales processes, among others at modern Smart branches and at the Smart Mini outlets established in 2016.

Mortgage products

At the end of 2016, the mortgage loan portfolio balance stood at PLN 1.3 billion, which represented an increase of 1.2% compared to the end of 2015. Sales of mortgage products in 2016 amounted to PLN 150 million.

Investment and insurance products

Investment products

At the end of 2016, the total value of investment products (including investment-type insurance products, net of bi-currency investments) purchased by consumers via the Bank was 4% higher than at the end of the same period of 2015.

This increase was in the area of structured bonds as well as the instruments accumulated on accounts maintained by Dom Maklerski of Bank Handlowy S.A. (DMBH).

Within the scope of cooperation with DMBH, the Bank granted its clients access to 32 issues of investment certificates of closed-end investment funds.

As regards structured products, the Bank offered 81 structured bond subscriptions denominated in PLN, USD, GBP and EUR in the entire 2016.

As concerns open-end investment funds, in 2016 the Bank introduced 12 funds into its range of products on offer, including three multi-asset strategies managed by a foreign investment firm and offered in Poland exclusively by the Bank, four equity funds, four debt funds and one mixed fund managed by foreign investment firms.

Within the framework of the development of service processes related to its investment offerings, the Bank deployed a new tablet application to handle clients from the Citigold Private Client and Citigold segments; the application enables electronic customer service processes, including profiling, investment advice and accepting orders for selected products.

Insurance products

Within the framework of the development of its insurance offerings, the Bank implemented new projects, including the introduction of products in cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A. (life insurance company). In cooperation with this insurer, term life insurance together with a package of additional insurance products, life insurance and endowment insurance, life insurance with coverage in the event of serious illness and unit-linked life insurance with single premium were introduced into the range.

The Bank also started to introduce a customer service model at Bank branches that involves insurance experts who provide specialist support to clients related to financial planning with the use of insurance products.

6. Development of distribution channels

6.1 Direct acquisition

The Mobile Sales Department operates nationwide, with presence in six major Polish cities. Mobile Relationship Managers acquire new clients for the Bank during cultural and sporting events, at corporations and public administration units as well as in fixed locations such as airports, cinemas, shopping malls or gas stations. They are responsible for the Smart Mini mobile sales and service points – in 2016, three such outlets were created. Currently, there are 105 mobile Relationship Managers within the Universal Bankers channel. The sales in the Bank's Universal Bankers channel in 2016 included:

- 13,425 credit cards, which is an increase of 121% compared to 2015;
- 1,013 Priority Accounts compared to 702 in the previous year. This means an increase of 44%. Additionally, the portfolio of accounts acquired is of better quality as evidenced by the increasing activation ratio;
- PLN 106.5 million of cash loans. This is an area in which the Universal Bankers channel recorded the greatest progress in both quantitative and qualitative terms compared to the previous year.

6.2 Branch network

Construction of a Smart Bank Ecosystem

In 2016, in the branch network area Citi Handlowy continued the implementation of the strategy for the construction of a Smart Bank Ecosystem announced three years ago; this is based on a lightweight distribution network and on maximum use of remote channels in acquiring and serving clients. This retail banking distribution model is not about the number of outlets but rather about their highest efficiency and optimal location.

On the one hand, the Bank continued the optimization of the traditional branch network, which resulted in the closure of the

last 20 branches of this type. In the case of six cities (Białystok, Toruń, Lublin, Gliwice, Częstochowa and Bielsko-Biała), this resulted in it no longer being physically present in these markets. All clients affected by this change were referred to alternative access channels guaranteeing secure 24/7 access to the Bank's services and products via online, mobile or phone banking.

At the end of 2016, the network of the Bank's branches comprised 25 outlets.

On the other hand, the Bank introduced a new physical distribution format. In November 2016, Citi Handlowy opened three Smart Mini mobile sale and service points. The Smart Mini Format is the Bank's response to changing trends in retail banking and in client behavior – the increasing use of remote access channels for managing finances. Smart Mini are formats that are meant to literally "follow" clients, using the short-term sales potential of different locations. The bank offers fully functional facilities with just 12 square meters of floor area. Clients can make deposits and withdrawals in PLN and in foreign currencies, carry out electronic banking transactions or apply for an account, loan or credit card, which they will receive on the spot. At Smart Mini outlets, paper documents have been replaced with digital ones. Services are only provided using tablets – without paper, but using electronic signatures instead. This has all been made possible through the use of state-of-the-art technology. Smart Mini outlets are fully mobile, with an island layout; their functionality and design allow them to be moved to any location in Poland within two or three days, so the bank can literally follow its clients. They may be located at shopping malls, at corporate headquarters, in cinemas or at railway stations. Smart Mini outlets currently operate in Kraków, Poznań and Janki near Warsaw. The Smart Mini concept is an original idea developed by Citi Handlowy and implemented in this form in Poland only.

The most affluent clients from the Citigold and Citigold Private Client segments still have Personal Relationship Managers at their disposal at Branches situated in nine major Polish cities. At the same time, the Bank has developed remote service processes, which allows it to offer to clients an ever wider range of transactions during phone conversations with the Relationship Manager or during meetings at any location, without the need to visit a physical branch. The Bank has also introduced new tools enabling the handling of Citigold products on iPads – without paper documents, using an electronic signature.

Number of branches (at the end of period)

| | December 31, 2016 | December 31, 2015 | Change |
|---|-------------------|-------------------|-------------|
| Number of branches (at the end of period): | 25 | 45 | (20) |
| - HUB Gold | 7 | 8 | (1) |
| - Smart Hub Gold | 2 | 2 | - |
| - Blue | - | 18 | (18) |
| - Investment Center | 1 | 2 | (1) |
| - Smart Branches | 14 | 14 | - |
| - Corporation Branches | 1 | 1 | - |
| Other POS: | | | |
| Smart Mini | 3 | - | 3 |

6.3 Internet and telephone banking

Online Banking

The number of active Citibank Online users, i.e. those who logged on to the site at least once every 30 days, reached 322,000 at the end of 2016. The share of active Citibank Online users in the total portfolio of the Bank's clients amounted to 48% at the end of 2016. The share of active electronic banking users who carry out financial transactions was 72%.

As at the end of 2016, the number of digital users (i.e. those who used Citibank Online or Citi Mobile services on various devices at least once a month) reached 336,500, i.e. 50% of all of the Bank's retail clients. The share of transactions executed online or via mobile banking channels in total banking transactions at the end of 2016 amounted to 97.5% and grew by more than 2 p.p. in relation to 2015.

The Bank is completing work on the project under which a new Citibank® Online transaction system will be developed. The project uses an Agile methodology, which means that the system is being deployed in several stages in parallel and its various features and elements are implemented on a quarterly basis. The system is developed on the basis of the RWD (Responsive Web Design) technology. The platform has a modern and intuitive design, can be freely used on mobile devices and introduces many other innovative features that will be made available to clients in the first quarter of 2017.

In compliance with the project methodology adopted, tests and interviews with users make it possible to introduce changes on the fly and develop the best solutions.

Last year, credit card acquisition through online campaigns was the source of the largest number of new clients. The number of cards sold increased by 47% compared to the previous year and accounted for 33% of total sales at the bank. The acquisition of loans and hire purchase products increased by 147% y/y.

Mobile banking

The number of active Citi Mobile users, i.e. those who accessed mobile banking at least once every 30 days, exceeded 85,000 at the end of 2016, an increase of more than 20% compared to December 2015. The share of active users of mobile banking in the entire consumer portfolio stood at over 13%, which represents an increase by 2 p.p. over the same period of 2015.

Since the launch of the Citi Mobile banking system in May 2010, the application has been downloaded 260,000 times.

Social Media

In 2016, the Bank continued its activities in social media, which remained an important channel of contact with the clients. The Bank focused on improving the quality of customer service, which resulted in the designation of the Bank by Facebook as the fastest responder in the banking industry. All fan involvement indicators improved (almost twice), and the average daily reach amounted to 22,000 people. The Bank has more than 145,000 fans.

7. Changes in IT technologies

In 2016, projects were implemented in the technology area that were aimed at making the Bank more competitive by providing the highest-quality services and products with broad support for innovative solutions, digitization and automation while optimizing costs at the same time. IT processes at the Bank operate according to international standards, as recognized in the first quarter of 2016 by the positive outcome of the ISO 20000 (IT service management) recertification audit and the ISO 27001 (information security management) and ISO 22301 (business continuity) surveillance audits.

The following solutions were implemented in 2016:

- **in the Corporate and Commercial Bank area:**
 - the implementation of electronic form modules for institutional clients;
 - the launch of the module to support trade credit in the trade finance services area;
 - the launch of Mastercard prepaid cards;
 - the upgrade of the Prime/Online platform for prepaid card handling;
 - the automation of LORO transaction processing;
 - the implementation of the Standard Audit File for Tax as required by the Ministry of Finance as a product offered to clients in the bank statement area;
- **in the Consumer Bank area:**
 - the development of the CitiMobile platform for consumers – further changes to improve platform performance and functionality, including the implementation of a new method for delivering notifications (Push Notification);
 - the implementation of a systemic solution to handle new investment funds for consumer banking clients;
 - the implementation of new systemic solutions to handle the products and processes related to the sale of insurance products;
 - the optimization of consumer service channels – the porting of the CitiPlanner application to iPads;
 - changes in the collection process, which is conducted using a dedicated application;
 - the automation of the fee charging process for different types of products and processes;
 - the development of the online banking platform, in particular in order to improve client experience;
 - adapting the retail banking system to the government 500+ child allowance program;
- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**
 - the implementation of a new solution for calculating CIT, PIT and VAT due to tax changes;
 - the launch of the solution required to comply with FATCA regulatory reporting;
 - the systemic implementation of the requirements resulting from Recommendations P and W of the Polish Financial Supervision Authority;
 - adapting the Bank's systems to enable the processing of SEPA foreign payments;
 - the implementation of the Standard Audit File for Tax as required by the Ministry of Finance;
 - adjusting the mechanism of calculating contributions to the Banking Guarantee Fund;
- **in the area of the Bank's ICT infrastructure and information security:**
 - the introduction of further mechanisms to secure the Bank's online platforms, including anti-malware, 3D Secure, Suspicious Activity Detection, Arcsight, Device Print;
 - the deployment of the ForeScout application and process – active monitoring/detection of unidentified objects in the Bank's network;
 - upgrading the Elixir platform used for settlements in the domestic market;
 - the migration of environments that are nearing the end of their technological life cycle to new IT environments, including enhancing system stability;
 - the deployment of WiFi infrastructure at more Bank locations;

- the implementation of VoIP telephony at more Bank locations, including the upgrade of voice recording infrastructure for recording phone calls;
- the deployment of a new system for recording conversations at the Bank.

Pending (unfinished) initiatives and system modifications impacting the Bank's activity in the coming periods:

- **in the Corporate and Commercial Bank area:**

- the implementation of a new platform for handling commercial cards for institutional clients;
- the implementation of systems that support the work of the Financial Markets Sub-Sector in the derivatives area;

- **in the Consumer Bank area:**

- further enhancements to the online banking platform, broadening the scope of automatic transaction processing;
- the further optimization of SMART branches and the launch of alternative solutions such as SMART Mini;
- automating and digitizing sales processes (straight through processing) in the area of consumer banking products – cards, loans, accounts;

- **in the area of adapting the Bank's systems to ensure compliance with regulatory requirements:**

- the implementation of the Know Your Customer platform in order to improve the process for identifying clients;
- the further adaptation of the Standard Audit File for Tax functionality for the Bank as required by the Ministry of Finance;

- **in the area of the bank's ICT infrastructure and information security:**

- the implementation of further new-generation security mechanisms in banking systems;
- the implementation of a new follow-me printing environment based on a XEROX solution;

8. Equity investments

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In 2016, the Bank continued to pursue its existing equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

8.1 Strategic portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank's product offering, bring prestige to the Bank's operations and strengthen its competitive position in the Polish financial services market.

Strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as their cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

8.2 Divestment portfolio

The divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale locks capital without a predetermined rate of return. The Bank is not planning to do any new capital investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swap or acquired in the course of operating activities.

8.3 Special purpose investment vehicles companies

As at 31 December 2016, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is

expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the (preliminary unaudited) basic financial data of the companies in question as at 31 December 2016 were as follows:

Special purpose investment vehicle companies

| Entity | Headquarter | Authorized capital/votes in GM held by the Bank | Balance sheet | Equity | Net financial profit/loss for 2016 |
|--------------------------------|-------------|--|---------------|----------|--|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Handlowy-Inwestycje Sp. z o.o. | Warszawa | 100.00 | 10,913 | 10,885 | 50 |
| Handlowy Investments S.A.* | Luksemburg | 100.00 | 19,303 | 18,856 | (55) |

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2017, which is the entity's balance sheet date.

9. Awards and honors

In 2016, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- Citi Handlowy was included for the tenth time in the **RESPECT Index** – the first index of responsible companies in Central and Eastern Europe compiled by the **Warsaw Stock Exchange**.
- Citi Handlowy received the **“Ethical Firm” award from Puls Biznesu**. In the 2nd edition of the daily's business competition, 15 companies were selected with the highest ethical standards that engage in comprehensive, systemic measures in order to build and strengthen an organizational culture based on values and that are the most active companies in Poland in this respect.
- **23 initiatives in the field of corporate social responsibility (CSR) launched by Citi Handlowy were featured in this year's 14th edition of the Responsible Business Forum report.** “Responsible Business in Poland. Good Practices” is the only publication summarizing the most important projects in the field of CSR in Poland.
- Out of the 51 initiatives submitted by companies and corporate foundations in the “Business Educational Activities. List of Most Significant Initiatives” category of the Responsible Business Forum, three projects were submitted by Bank Handlowy w Warszawie S.A.
- The Leopold Kronenberg Foundation at Citi Handlowy was awarded the title **“Benefactor of the Year”** in the “Corporate Foundation – Community Project” category. This title was awarded for the Foundation's Business in Women's Hands program implemented in cooperation with the Foundation for Women's Entrepreneurship.
- Citi Handlowy was also awarded the **White Leaf by the Polityka weekly**. This accolade goes to those companies which declare that they implement all of the most important management measures recommended by ISO 26000 and continuously improve their activities in this area to efficiently manage the impact of their business.
- Citi Handlowy was named the **Top Employer** for the sixth time. This award is granted by the Corporate Research Foundation Institute to companies whose HR policies obtained the highest marks in the survey conducted. This award is a confirmation of the purpose and value of the Bank's activities conducted in the human resources management area.
- **For the fifth year in a row, the Bank won the competition for Treasury Securities Dealers held by the Ministry of Finance, obtaining the highest score among the 16 banks ranked.** The Bank's victory in this prestigious competition organized since 2002 confirms its strong position in this market segment and gives it the mandate to provide such services in 2017.
- The Management Board of Citi Handlowy was recognized in the prestigious **“Listed Company of the Year” ranking organized by the Puls Biznesu daily**, in which the winner is selected by capital market participants in an anonymous vote. As the only financial institution, the bank was among the winners in the “Management Board Competences” category where activities related to communicating with the market and keeping promises and commitments were assessed.
- Following the end of year 2015 on the Warsaw Stock Exchange, Dom Maklerski Banku Handlowego S.A. (brokerage house) received a **WSE award for equity market participants** for the seventh time – for having the highest share in stock trading (excluding market maker transactions) in the main market.
- Citi Handlowy was among the three financial institutions that won the title of **“Pillars of the Budget” in this year's edition of the ranking of the 500 largest companies in Poland compiled by the Rzeczpospolita daily**. In 2015, “Pillar” awards were given to those companies that were the largest taxpayers. The main criterion was the amount of corporate income tax that the companies reported in their profit and loss accounts. Importantly, the award considers a period of more than one year and tax figures are also weighted using other indicators.
- Citi Handlowy was among the three best companies in this year's ranking of the British **Euromoney** monthly in the “Best private banking services overall in Poland” category. In the 13th edition of the **Private Banking and Wealth Management Survey 2016**, the bank was ranked 1st in three specialty categories: for the best technological innovation for clients, investment analysis and advice in terms of asset allocation, and services for international clients.
- Citi Handlowy once again received **the highest rating for its private banking in the prestigious rating compiled by**

the **Forbes** magazine. This time, the introduction of new technological solutions that support the Relationship Managers' work and accelerate the investment process received particular praise.

- The Citi Simplicity card was awarded the **Golden Banker award in the best credit card product category**. In the 7th edition of the ranking, the cash loan and mortgage loan products were also ranked third in their respective categories.
- The Citi PremierMiles Credit Card for travelers was one of the finalists in the Best Card for Business Travel category of the **2015 Business Traveler Poland Awards**. The award was presented on 17 February 2016 during the gala of the *Business Traveler Award* magazine.

VI. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Economy

The deeper-than-expected slowdown in economic growth in the United Kingdom in connection with its exit from the European Union may hamper economic growth in the eurozone. Moreover, slower growth and the Brexit process itself may lead to a revision of the EU budget and a reduction in EU payments to Poland. The increase in support for anti-immigrant and anti-globalization populist parties in Europe may have a similar effect. In this context, a particular risk is posed by presidential elections in France. Marine Le Pen's victory would endanger the very existence of the eurozone and of the European Union and would threaten the marginalization of Poland's role in Europe. This in turn would have a highly negative impact on trade and economic growth in Poland and also on the PLN exchange rate and bond yields.

The uncertainty associated with the economic and foreign policies of U.S. President Donald Trump, including the United States' role in NATO, and expectations of a loose fiscal policy and restrictive monetary policy in the U.S. may lead to capital outflows from emerging markets, which may weaken the PLN and drive up bond yields.

Any significant economic slowdown would pose risks for the fiscal position, especially in the context of additional costs resulting from the reduction in retirement age. A weak fiscal situation and uncertain outlook for public finances could result in tax rises and reduced corporate investment, leading to a further deterioration in economic activity.

If major rating agencies decide to further downgrade Poland's rating, this could contribute to a renewed increase in volatility in the financial markets. In addition, the downgrade could be followed by an increase in financing costs for Polish companies in foreign markets.

The above factors may affect the Group's performance in the reporting periods to come.

1.2 Regulatory and legal risks

Any changes in the economic policies or in the legal system could have a considerable effect on the Group's financial condition. In terms of banking sector regulations, a particularly important role is played by acts and the related implementing regulations, including regulations of the Minister of Finance, resolutions of the Management Board of the National Bank of Poland ("NBP") and orders of the President of NBP, and resolutions of the Polish Financial Supervision Authority ("PFSA") as well as regulatory recommendations and the laws enacted by the European Union.

Among the aforementioned legal and supervisory regulations the most important include:

- Banking Act of 29 August 1997;
- Act of 29 August 1997 on the National Bank of Poland;
- Civil Code Act of 23 April 1964;
- Commercial Companies Code Act of 15 September 2000;
- Act of 26 June 1974 – Labor Code;
- Personal Data Protection Act of 29 August 1997;
- Admissible concentrations of exposures and debt limits (Banking Act);
- Maximum level of equity investments in the capital market (Banking Act);
- Liquidity, solvency and credit risk standards (resolutions of the Polish Financial Supervision Authority);
- Risk management at the bank (Banking Act, resolutions of the Polish Financial Supervision Authority);
- Calculating and satisfying reserve requirements (NBP Act, Banking Act, resolutions of the Polish Financial Supervision Authority and resolutions of the NBP Management Board);
- Regulations concerning taxes and related instruments;
- Act of 7 July 2005 amending the Civil Code Act and other laws limiting maximum interest on consumer loans and maximum amount of fees and charges related to such loan;
- Limits regarding the extension of mortgage-secured foreign currency loans set forth in Recommendation S and Recommendation S(II) of the Polish Financial Supervision Authority;

- Act of 16 February 2007 on Protection of Competition and Consumers;
- Act of 23 August 2007 on Counteracting Unfair Market Practices;
- Act of 16 November 2000 on Combating Money Laundering and Terrorist Financing;
- Act of 29 July 2001 on Consumer Credit;
- Act of 12 May 2011 on Consumer Credit;
- Act of 19 August 2011 on Payment Services;
- Act of 30 May 2014 on Consumer Rights;
- Act of 29 July 2005 on Trading in Financial Instruments;
- Act of 27 May 2004 on Investment Funds and the Management of Alternative Investment Funds;
- Act of 28 August 1997 on Organization and Operation of Pension Funds;
- Act of 29 July 2005 on Public Offering and on the Terms of Introducing Financial Instruments into Organized Trading and on Public Companies;
- Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring (BGF);
- Act of 28 February 2003 – Bankruptcy Law, including so-called consumer bankruptcy;
- Act of 15 May 2015 – Restructuring Law;
- Act of 11 September 2015 on Insurance and Reinsurance Activity;
- Act of 5 August 2015 on the Handling of Complaints by Financial Market Participants and on the Financial Ombudsman;
- Act of 5 August 2015 on the Macro-Prudential Oversight of the Financial System and Crisis Management in the Financial System;
- Act of 21 July 2006 on Financial Market Supervision;
- Act of 15 January 2015 on Bonds;
- Act of 9 October 2015 on Performing the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA;
- Act of 15 January 2016 on the Tax on Certain Financial Institutions;
- Regulation No 648/2012 of the European Parliament and of the Council of 4 July 2012 and European Commission implementing regulations (so-called “EMIR”);
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 together with implementing legislation;
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – so-called MAR (Market Abuse Regulation);
- Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council with regard to obligations of depositaries;
- Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision;
- Recommendation A of the Polish Financial Supervision Authority on the management of risks related to derivative transactions conducted by banks;
- Recommendation T of the Polish Financial Supervision Authority on good management practice concerning the risk of retail credit exposures;
- Recommendation I of the Polish Financial Supervision Authority on the management of foreign exchange risk at banks and rules of executing transactions subject to foreign exchange risk by banks;
- Recommendation M of the Polish Financial Supervision Authority on the management of operational risk at banks;
- Recommendation U on good practices in bancassurance;
- Recommendation D on the management of IT areas and ICT environment security at banks. The recommendation has replaced the previous Recommendation D. As compared to the previous version of Recommendation D, provisions have been introduced, *inter alia*, that concern the management of data (including data quality), principles of co-operation between business and technology areas, the management information system for IT, ICT security and

cloud computing. Supervisory expectations have also been updated and clarified as regards strategic planning in the IT area and security of the ICT environment, implementation of new and modification of existing IT solutions, co-operation with third-party service providers and management of risks connected with ICT environment security;

- Recommendation P on the management of the banks' financial liquidity risk;
- Recommendation W on the management of the banks' risk of models;
- Recommendation C concerning concentration risk management;
- Resolution of the Polish Financial Supervisory Authority No. 584/2015 of 17 November 2015 on the issuance of a Recommendation concerning the security of online payment transactions executed by banks, domestic payment institutions, domestic electronic money institutions and credit unions;
- Guidelines of the Polish Financial Supervision Authority of 16 December 2014 on the management of IT and ICT security areas at pension fund management companies, insurance and reinsurance companies, investment fund management companies, entities providing capital market infrastructure, and investment firms. The guidelines are a version of Recommendation D on the management of IT and ICT security areas at banks adapted to the needs of individual sectors. The PFSA expects appropriate measures aimed at implementing the standards set forth in the guidelines to be implemented by the entities subject to supervision no later than by 31 December 2016. These guidelines apply to the Bank in the scope of Brokerage Services Management Unit operations as well as to the DMBH brokerage house;
- Guidelines of the Polish Financial Supervision Authority of 24 May 2016 concerning the provision of brokerage services on the OTC derivatives market. The guidelines are a supervisory interpretation of the legal acts setting forth the rules governing the sale of OTC derivatives. The purpose of the guidelines is to present recommended solutions with respect to OTC derivatives, including without limitation with regard to overseeing the sale of these products, conducting advertising, promotional and information activities, training sales staff, examining the suitability of products and the inclusion of certain types of clauses in their documentation. The guidelines apply to the Bank as well as to Dom Maklerski Banku Handlowego S.A. (brokerage house) as of 30 September 2016;
- Corporate Governance Principles for Supervised Institutions issued in PFSA Resolution of 22 July 2014. It is a set of principles that define the internal and external relations of institutions supervised by the PFSA, including investor relations, client relationships, their organization, internal governance as well as the key systems and internal functions, statutory bodies and their cooperation. The Principles apply to the Bank as well as to the DMBH brokerage house;
- Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC – Market Abuse Regulation (MAR), and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse – Market Abuse Directive (MAD) – in force since 3 July 2016;
- Act of 22 July 2016 amending the Act on the Minimum Wage and Certain Other Acts (Journal of Laws [Dz. U.] of 2016 item 1265 as amended of 17 August 2016). Apart from the introduction of a minimum hourly rate for those who perform mandates or service providers, the amendment to the Act on the Minimum Wage, also introduced – effective as of 1 January 2017 – new responsibilities in the area of recording working time for entrepreneurs using the services of natural persons who do not engage in business activity and who accept mandates or provide services under contracts of mandate or service contracts;
- Act of 16 December 2016 on the Amendment of Certain Laws in Order to Improve the Legal Environment for Businesses (Journal of Laws [Dz. U.] of 2016 item 2255 of 30 December 2016). The Act aims to remove a number of legal barriers related to various branches of the law. The most significant amendments to the labor law provided for in the Act that are effective as of 1 January 2017 concern the issuance of certificates of employment within specific time limits and on specific templates and also the requirement that agreements on joint liability for the property entrusted be concluded in writing under pain of nullity.

Legal and supervisory regulations which may impact the activity of the Bank in the coming periods:

- On 23 December 2015, Regulation of the European Parliament and of the Council (EU) 2015/2365 of 25 November 2015 on the transparency of transactions financed with securities and re-use and amending Regulation (EU) No 648/2012 was published in the Official Journal of the EU (OJ L 337/1). The aim of the regulation is, *inter alia*, to increase the transparency of transactions financed with securities. It imposes a duty, among others, on counterparties (this term includes banks), investment companies (UCITS) and their managers, AIFM, to report to a trade repository any repo, sell/buy-back, securities lending transactions. The Regulation entered into force on 12 January 2016 but the obligation to report the transactions will take effect at the earliest from the beginning of 2017 depending on the date of entry into force of the implementing rules;
- On 12 June 2014, the MiFID II (Directive) and MiFIR (Regulation) (jointly "MiFID II") were published in the Official Journal of the EU. The MiFID II regulatory package comes into force in January 2018 (as a result of the original effective date being shifted) subject to any further changes in laws or delays in the implementation to the legal system. MiFID II will replace the MiFID I package currently in force (which includes MiFID 1 Directive, MiFID 2 Directive and MiFID Regulation). The MiFID II package will also include other implementing acts such as implementing and delegated regulations. The new regulations aim to build a more secure, reliable, transparent and more responsible financial system. MiFID II, in particular, introduces changes to the structure of the organization and regulation of markets by introducing, where it is considered appropriate, among others, organized trading facilities (OTF) and multilateral trading facilities (MTF), greatly expands the existing principle of transparency in financial market transactions (transparency before and post-trade), strengthens the existing powers of EU and local regulators (including but not limited to EBA, ESMA, PFSA), including the regulators' powers of intervention as to the prohibition

and restriction of certain activities in the financial market. An important part of the MiFID II package are the regulatory measures aimed at strengthening the protection of investors/clients through the introduction of organizational improvements in the protection of client assets and the area of product management (product governance), increasing the range of products covered by MiFID regulations, changes in the classification of clients, further strengthening the existing regulations regarding incentives (monetary and non-monetary benefits accepted or handed over in connection with the service provided), management of conflicts of interest, and a number of other measures to ensure compliance with the rules of fairness and professionalism in services in the financial market;

- Draft Act on Mortgage Loans implementing Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, which should have been implemented in March 2016;
- The government draft Act amending the Act on Trading in Financial Instruments and Certain Other Acts whose primary purpose is abolishing the division of the regulated market into the stock exchange market and the OTC market and the introduction of regulations concerning derivative accounts;
- On 9 December 2014, Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) was published in the Official Journal of the European Union; its purpose is to enhance the protection for individual investors who purchase such products. The Regulation will enter into force on 1 January 2018. The Regulation requires entities that create and sell PRIIPs (including the Bank and DMBH) to meet a number of new obligations, primarily with respect to the provision of certain information to investors;
- On 23 December 2015, Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market amending Directives 2002/65/EC, 2009/110/EC, 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (so-called PSD 2) was published in the Official Journal of the European Union; its aim is to eliminate regulatory gaps in the field of payment services, to provide greater legal clarity and consistent application of the framework legislation throughout the European Union, to ensure a level playing field for existing and new market participants, allowing the dissemination of new payment methods among a wide range of users, to ensure a high level of consumer protection and, as a result, to improve the efficiency of the entire payment system and harmonize the market in the area of payment services. The deadline for transposing the directive into national law expires on 13 January 2018;
- On 4 May 2016, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC was published in the Official Journal of the European Union. The Regulation entered into force on 25 May 2016 and will apply from 25 May 2018. The two-year transition period is meant to enable the full implementation of the requirements set forth in the Regulation with regard to the processing of personal data. The Regulation will be directly applicable in all Member States and will replace the current Directive 95/46/EC and national laws governing the protection of personal data, including the Polish Personal Data Protection Act of 29 August 1997. Under the Regulation, Member States will be authorized to adopt specific rules for particular areas to clarify the rules for the protection of personal data arising from the Regulation;
- Draft Recommendation Z of the Polish Financial Supervision Authority concerning internal governance rules in banks. In the opinion of the Authority, the draft addresses a key issue from the point of view of sound and prudent management of banks, which is crucial for the proper functioning of the banking sector. The Recommendation contains provisions on the banks' business conduct, but also on the internal governing bodies of the bank, its employees as well as shareholders and stakeholders, especially clients of the banks and on building relationships in terms of:
 - Risk management – both the organization of the risk management system and the various essential elements of the risk management process;
 - Management of conflicts of interest, not only at the level of members of the Management Board and the Supervisory Board, but also other employees of the bank;
 - Internal relations and external relations with clients – among others by defining the bank's applicable remuneration systems for all employees, codes of ethics or principles for introducing new banking products;
 - Relations with shareholders – including dividend policy, consistent with the strategy of the Bank's operations.
- Draft Law amending the Act on Trading in Financial Instruments and Certain Other Acts – the primary objective of the draft is to implement Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse – Market Abuse Directive (OJ L 173, 12.06.2014, p. 179) ("MAD") and therefore to implement into national law the objectives set by EU legislators. The regulations included in the draft will also enable the application of Regulation No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173, 12.06.2014, p. 1, as amended) ("MAR") as well as enabling the implementation of Commission Implementing Directive (EU) 2015/2392 of 17 December 2015 on Regulation (EU) No 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation (OJ L 332, 18.12.2015, p. 126).

2. Significant risks and threats related to the Group and its activity

2.1 Liquidity risk

Maturity mismatches between loans and the underlying deposits are a typical aspect of banking activity, and these occur at the Bank as well. They could give rise to potential problems with current liquidity were there to be a build-up of large payments to clients. Management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is

the responsibility of the Assets and Liabilities Committee (ALCO), which maps out a strategy later implemented by the Financial Markets Sub-Sector.

The main task of the Assets and Liabilities Committee is the management of the balance sheet structure to increase its profitability, defining admissible limits of financial risk undertaken in various areas, coordination of the pricing policy in terms of interest rates and making decisions on transfer pricing in the Bank.

As part of liquidity management activities, the Assets and Liabilities Committee of the Bank is responsible for the development and implementation of a uniform policy of liquidity risk management at the Bank, approves annual liquidity plans, plans for funding the Bank's assets and the Bank's liquidity limits, as well as liquidity contingency action plans. It also determines threshold values (limits) for various sources of funding and conducts regular reviews of liquidity risk reports.

The Bank's deposit base is stable and diversified. Furthermore, the Bank has a large portfolio of liquid securities, good access to interbank funding and a high level of own funds. The level of liquidity risk in 2016 was low.

2.2 Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its clients and for its own account, and holds open foreign exchange positions within established limits. Therefore the Bank is exposed to foreign exchange risk. Control over foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Financial Markets Sub-Sector responsible for managing liquidity and foreign exchange position. Market risk of the Bank's proprietary positions was low in 2016.

2.3 Interest rate risk

As is the case with other banks operating in Poland, the Bank is exposed to a risk of mismatch between the timing of changes in interest rates on its assets and on the underlying liabilities (revaluation gap risk) as well as the risk that debt securities and interest rate based derivatives may be sensitive to market interest rate fluctuations (pricing risk). In terms of revaluation gap risk, interest rate risk may arise where it is impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. Conversely, this risk also arises in situations where a rise in interest rates on deposits cannot be offset by a corresponding rise in interest rates on loans. In respect of the pricing risk, interest rate risk may arise when changes in market rates have an adverse effect on the valuation of instruments in the trading book and, consequently, on the Bank's financial result, or on the valuation of the portfolio of securities available for sale and, consequently, on the Bank's own funds. The management of interest rate risk is a responsibility of the Assets and Liabilities Committee of the Bank which, among others, determines the Bank's interest rate risk pricing policy. The interest rate risk level in 2016 was medium to high for trading portfolios and for banking portfolios.

2.4 Credit risk and counterparty risk

Credit risk and counterparty credit risk represent a potential loss resulting from a client's inability to pay its contractual obligations due to insolvency or other reasons, taking account of collateral, unfunded credit protection and other loss mitigating agreements. In the case of counterparty risk, the Bank's exposure is variable over time. If the transaction is not settled in time, the Bank runs an additional risk of a change in contract value. The Bank sets limits for the credit risk and counterparty risk it takes at the level of exposure to a given entity or a group of related entities. In addition, portfolio limits are introduced to support the process of management and ongoing monitoring of the credit portfolio. The process of active portfolio quality management includes assigning appropriate ratings to exposures and their internal classification as well as recognizing impairment and taking remedial and debt collection measures. For credit exposures, the Bank makes impairment write-downs as required by law. The Bank's Management Board is of the opinion that the current level of impairment write-downs is adequate. As the possibility of change in the external environment or other circumstances that could adversely impact the financial condition of the Bank's clients always exists, there is no certainty that some future need for making impairment write-downs appropriate to the existing asset portfolio will not have an adverse effect on the Bank's financial position or that the impairment write-downs made and collateral established will prove sufficient to absorb the possible losses arising out of lending.

2.5 Operational risk

Operational risk is the risk of possible loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation risk, the risk associated with operational events, business practices and market conduct as well as legal risk and compliance risk. Operational risk does not include strategic risk or the risk of potential loss caused by decisions to accept credit risk, market risk, liquidity risk or insurance business risk.

The strategic objective of operational risk management is to ensure a coherent and effective system of operational risk identification, assessment, mitigation, control, monitoring and reporting and to ensure effective reduction of exposure to operational risk and, consequently, to reduce the number and severity of operational risk events (policy of low tolerance for operational losses).

Another objective of operational risk management is to fully integrate operational risk management processes and business decision making processes (i.e. the business strategy will be supported by operational risk assessment and business will be evaluated on the basis of pre-defined indicators of operational risk and controls).

The Bank's operational risk management system is structured to ensure proper risk management at each stage (identification, assessment, counteraction, control, monitoring and reporting).

The Bank's Management Board is responsible for the development, implementation and operation of the appropriate operational risk management system by implementing appropriate internal regulations, and for ensuring the consistency of the operational risk management system with the Strategy of the Bank and for the proper functioning of the system within the organization by analyzing information that allows the assessment whether the system is adequate to the operational risk profile. Where a need for change is identified, the operational risk management system is improved by making the

appropriate corrections.

The implementation of the strategy by the Bank's Management Board is evaluated by the Supervisory Board supported by the Audit Committee and the Risk and Capital Committee on the basis of summary reports tabled by the Management Board at least once per year, which define the scale and types of operational risk to which the Bank is exposed, the operational risk management methods, the probability of materialization of operational risk, an assessment of the potential adverse impact of the operational risk management method, and the outcome of monitoring of the operational risk profile and operational risk appetite. Following its assessment, the Supervisory Board may request a revision, where necessary.

Internal Audit is responsible for independent assessment of the effectiveness of operational risk management processes and for assessment of the adequacy and effectiveness of the operational risk management system, including its regular reviews. Internal and external audit findings are integrated into the management information system and into the decision-making process related to risk management and management of the Bank.

The total amount of gross operating losses booked in 2016 does not exceed the accepted operating risk appetite.

VII. Development prospects for the Capital Group of Bank Handlowy w Warszawie S.A.

1. General development objectives of the Group

The Group focuses its efforts on strategically important areas in which it has a significant competitive advantage, which makes it possible to offer the most attractive products and solutions to clients. In the consumer segment, it consistently places particular emphasis on credit cards as well as the services included in the range targeted at affluent clients. With respect to Commercial Banking, an important area are services for global companies and major domestic enterprises. Other areas of the Bank's active involvement include products related to the foreign exchange market, transactional banking and securities custody.

The Group focuses on the acquisition of new clients and on deepening relationships with existing clients. Both in the Commercial Bank and the Consumer Bank, its focus will be on the acquisition of operating accounts and selling more products to existing clients.

The pillars of the strategy adopted by the Group are the highest quality of customer service and innovation in its products and solutions. The continuing development of the technologies used and improvements to its product range allow the Group to maintain a leading position in the financial services market.

The successful implementation of the strategy adopted largely depends on the rate at which it adjusts to new market conditions and the clients' changing preferences. As a result, the Group has decided to proactively adapt to changes in its clients' habits – they visit branches less and less but are increasingly willing to use banking services via remote communication channels. To this end, the process of optimizing the distribution network was conducted, based on the concept of Smart outlets located in big cities. At the same time, considerable emphasis was placed on the development of remote channels and increasing sales using those channels.

The strategic goal of the Group remains to build shareholder value by improving operational efficiency and leveraging its market advantages of a strong capital and liquidity position.

1.1 Institutional banking

As concerns corporate and commercial banking, the Group's strategy is to strengthen its leadership in the provision of banking services to international corporations and the largest domestic companies. Enterprises from the SME sector are another group of clients that are important to the Group. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group's market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. In terms of its product offering, the Bank also plans to further intensify cooperation with clients who have the potential to conduct foreign exchange transactions and who are looking for products in the field of trade finance.

Improving processes, focusing on innovations and raising the quality of services helps to make the Group more efficient. In this way, the Bank will be able to maintain its leading position in the field of foreign exchange transactions and in terms of the range of corporate operating accounts on offer.

1.2 Brokerage activity

The key factor that affects the performance of DMBH are trading in shares generated by institutional clients (both domestic and foreign). From the point of view of brokerage house activities, an important uncertainty factor are the planned changes to the pension system (replacing the 2nd pillar with Occupational and Individual Capital Plans). In addition, the lack of significant inflows of new money to domestic funds with exposure to the equity market largely reduces their demand for equity instruments.

Given the growing competition in, and decreasing potential of the domestic market, the Group sees opportunities to halt negative result trends in developing the retail brokerage business where consistent activities implemented jointly so far have enabled a significant increase in the materiality of the income obtained compared to the institutional segment. These activities have also resulted in the broad diversification of the risk of a further decline in income from brokerage activities.

1.3 Retail banking

In 2017, the Bank will consistently continue to pursue the strategy designated in previous years in all aspects of client segmentation and business model. The Bank intends to develop a range of products and services in such a way as to provide the best value and as much as possible to meet the financial needs of clients in target segments.

One of the strategic objectives will be to consolidate its leading position in banking services for affluent clients. To this end, the Bank will continue to develop products for Citigold clients and its unique offer implemented on the market at the end of 2015 for the most affluent clients - Citigold Private Client (CPC). The Bank is planning to implement new investment products and exceptional privileges as well as to introduce online solutions for wealth management convenient for the clients. For these groups of clients, the Bank will continue to cooperate with other Citi entities in the world, providing the clients with unique experiences in the area of global banking.

The Bank will also focus on attracting the so-called aspiring affluent clients by developing the Citi Priority offering especially for them. Concerned about the expectations of this segment of clients, the Bank will implement package solutions, deepening their deposit relations with the Bank and at the same time addressing their need for loans.

The Bank will seek to strengthen the leading position in the credit card market by offering products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. An important objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or instalment products as well as innovative, fast processes.

Given the need for a simple and quick handling of finances, the Bank will continue to invest in developing new technologies and improving the mobile and Internet platforms. In addition, the Bank intends to continue to pursue the strategy for the network of consumer branches, focusing the presence of its outlets in major cities in Poland, relying to a large extent on the format of Smart branches and Citigold Centers.

VIII. The Bank's community initiatives and cultural sponsorship

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible and sensitive to the needs of its partners, both business and social ones. All the Bank's operations are undertaken in accordance with the needs of its clients and the communities in which it operates.

The Bank's activity in the field of CSR includes workplace and market environment, local communities and the environment protection. The strategic goal is to become the company defining the standards of corporate social responsibility both outside and inside the organization. Investments are continued to support local communities, carried out for the public good in such areas as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this area is achieved through the Leopold Kronenberg Foundation at Citi Handlowy, which was founded in 1996. The Bank's social engagement is appreciated in independent rankings and listings such as the Respect Index or the Ranking of Socially Responsible Companies.

1.1 Client relationships – market practice

The Bank's mission and its greatest ambition is to build client relationships based on trust and shared growth aspirations. The strategic goal is to achieve a level of client satisfaction whose natural consequence will be unwavering loyalty to the Bank and a community of ambassadors who promote the Citi Handlowy brand as a partner in financial decisions. Therefore, we have been taking several measures, based on research and client feedback, to continuously improve and raise the quality of service standards and our product range.

One of our responses to the changing expectations of clients is to adapt the strategy of customer service based on a network of traditional branches to the emergence of new technologies. Today, more than 95% of banking transactions are effected by clients on their own using a mobile application or the e-banking system. We continue to develop our network of modern branches of the Smart Banking Ecosystem. Clients may use such outlets to conduct financial transactions, withdraw/deposit cash using foreign currency ATMs, obtain a credit card or learn, using an interactive screen, about special discount offers for Citi Handlowy card holders at nearby boutiques.

Citigold clients were also introduced to a new, more convenient way of executing investment transactions. Since mid-2016, during a meeting with their Relationship Managers they have been able to browse and analyse their portfolio and to approve agreements using a tablet, which means that such conversations may now take place at any location that is convenient for the client and not only at the branch. We have also opened more product purchase possibilities – while maintaining the highest security standards – for clients who prefer to talk to their Relationship Manager on the phone.

Following feedback from clients, we are also implementing a plan to develop the Citi Mobile application with respect to its functionalities and the manner of executing transactions. One of the major changes introduced in the last year was launching notifications that inform clients of transactions in real time, without the need to log into the application. Clients appreciate this option as an excellent security feature that gives them a sense of comfort and even more control over daily finances.

Additionally, responding to the growing popularity of social media and the clients' increased activity on the bank's Facebook profile, the Bank constantly develops the services provided via this channel and shares the most important information with its fans. No question is left unanswered and the Bank's response is almost immediate, which is confirmed by the fact that Citi Handlowy leads the So Trender ranking.

Accurate information – advertising ethics

For over six years, the Bank has consistently pursued the strategy of transparent client communication and matching its product range to the clients' needs. Communication requirements have been set as part of projects like "Treating Customers Fairly" and they must be met during product campaigns. Therefore, despite a rapidly changing market environment, we are

certain that our product communications are accurate and transparent. We guarantee the clarity of agreements and transparent communication of costs, risks and potential benefits. All employees who are responsible for our product range have been trained in transparent communication standards and are required to strictly follow them. Moreover, the Bank's policies in respect of and high standards of customer service, complaint handling and responsible marketing are governed by internal rules and regulations, e.g. "The Advertising Ethics Code" and "The Ethical Business Practices of Bank Handlowy w Warszawie S.A."

Client satisfaction surveys

The Bank polls both its institutional and consumer banking clients on a regular basis. The NPS (Net Promoter Score) is the key service quality indicator. The NPS indicator makes it possible to gauge the clients' willingness to recommend the Bank and, therefore, their satisfaction with the Bank's services. Surveys cover the key client segments of the Bank, the major contact channels (i.e. electronic banking, telephone service, branch offices) and "moments of truth" (key interactions, e.g. product purchases). Ratings and comments are analyzed by a team which studies client experiences, and the findings of such analyses and proposed improvements are discussed at monthly meetings with the Bank's management team. Comments that need clarification, additional questions or conversation with the client are not left unanswered – Gold Branch Managers call clients back immediately after receiving them. Owing to our disciplined approach, we managed to improve the score in respect of key NPS indicators in 2016. This level of commitment to working with feedback from clients inculcates the culture of even more responsibility for the experience and products offered by the Bank among its staff.

Citi Handlowy credit cards and Priority account were also rated the best by clients in the Bank's survey concerning recommendations in the Polish market (within the framework of the Top Down NPS survey conducted by ORC for the Bank).

Miguel Mendes who headed Client Experience Management received the greatest accolade – the title of the Marketing Head of the Year 2016 – as a result of many activities, including innovative marketing campaigns pursued online, in social media and on television. This industry award reflects all the efforts made in 2016 in order to adapt the Bank's communication and offerings to the clients' needs most effectively.

The many awards and distinctions received in 2016 also testify to the Bank's strong position in creating a product range that matches the clients' needs. This included recognition for the Citi PremierMiles Credit Card for travelers, which was one of the finalists in the Best Card for Business Travel category of the 2015 Business Traveler Poland Awards.

Moreover, the Citi Simplicity card was awarded the Golden Banker award in the best credit card product category. In the 7th edition of the ranking, the cash loan and mortgage loan products were also ranked third in their respective categories. Citi Handlowy received, for the second time, the highest rating for its private banking arm in the prestigious rating compiled by the *Forbes* magazine.

Complaints

Client reports and complaints indicating potential areas for improvement are also carefully reviewed. One of the changes made recently in the area of complaint handling was the implementation of a standard response time of one day for Gold clients and four days for the remaining clients.

Owing to that, the Bank remains the leader among financial institutions in terms of complaint handling time.

In order to communicate with clients more effectively, the Bank established the position of Client Spokesman in 2009. Clients may share their comments and suggestions about the operation of the Bank with the Spokesman by email.

The Spokesman's initiatives have in many cases contributed to changes, both systemic ones and changes within existing processes, which significantly improved client satisfaction with the Bank's services. Moreover, the possibility to contact the Spokesman directly and submit suggestions, comments or raise doubts gained recognition from clients.

The capabilities of contacting the Bank in connection with daily services are also steadily developed – a chat area has been made available on the Bank's website for an operator to quickly respond to questions about the products or services available online.

Data protection and client privacy

The Bank undertakes to protect private and confidential client information and use it appropriately. The relevant rules are described in the Bank's internal document entitled "Principles of personal data protection at Bank Handlowy w Warszawie S.A.". The Bank collects, stores and processes the clients' personal information as specified by national laws and regulations for the purpose of offering its clients products and services which better meet their financial needs and enable them to achieve their financial goals. With that in mind, the Bank uses its best efforts to implement and maintain appropriate systems and technologies and appropriately train its employees who have access to such information. Suppliers whose services the Bank uses are likewise required to protect the confidential nature of the data, including personal and confidential data, received from the Bank. The Bank also complies with its own strict internal standards and regulations in respect of the confidential nature and security of information and personal data (IT system management standards, information security standards, general security regulations). In addition to that, each employee of the Bank is required to protect any and all personal and confidential client data, seeing to it that such information is only used for valid purposes related to their work and made available only to authorized individuals and organizations, and appropriately and securely stored.

The Bank follows the highest information security standards. It regularly undergoes audits in that respect and holds certificates of conformity to the ISO 27001 and ISO22301 standards which cover the processes, products and services provided by the Bank to its clients.

1.2 Workplace practices

A strategic goal of the Bank is to attract, develop and retain the most talented people who share the values followed by the Bank:

| | |
|----------------------|---|
| Common objective | One team striving to achieve a common objective: to ensure the best service to customers and stakeholders. |
| Responsible business | Act in a transparent, reasonable and responsible manner. |
| Innovation | Continuous improvements of solutions offered to our customers by providing them with exhaustive information on our products and services; delivery of world class products. |
| Talent development | A team of talented and highly specialized professionals who offer excellent service, show initiative and can meet even the most difficult challenges. |

The Bank offers to its employees a safe and friendly workplace, where they can work, engaging their energy and having a sense of their personal achievement, satisfaction and opportunities for personal development. The development of employees is supported by the implementation of such measures as training, commitment to the demanding projects, as well as the evaluation process, whereby employees receive feedback on their strengths and areas that still need to be improved. The Bank has in place a personnel policy, accompanied by documented, measurable and regularly monitored goals.

The process of selection of, but also development of the staff is extremely important for the development of the Bank. For this purpose, the internal www.KarierawCiti.com.pl portal was made available to all employees, enabling everyone to apply for any interesting position within the Bank's structures and in other companies belonging to the Citi Group.

In addition, the Bank provides employees with a wide range of non-wage benefits that meet their personal and social needs.

As part of non-wage benefits, employees benefit from the employee pension scheme, life insurance, sport package, private medical care, social benefits fund and banking products offered on preferential terms. Employees also have the ability to work flexible hours to allow for better balancing of personal and professional responsibilities.

Taking care of work safety, the Bank seeks to ensure optimum working conditions for all employees with special emphasis on health and safety at work.

Employee satisfaction surveys

Every year, the Bank examines the moods of its employees in a survey called the Voice of Employee. The survey is the study of employee satisfaction and engagement. Participation in the survey is voluntary. The questions that employees respond to relate, among others, to: communication, development opportunities, meritocracy, relations with superiors and colleagues, taking part in decisions, the balance between professional and personal life as well as the diversity of values and ethical principles that guide the Bank.

Filling the surveys is the first stage of activities related to the work on the study of sentiment among employees. The next stages are the analysis of the results, group interviews designed to gain deeper insight into the results and the preparation of action plans improving the survey, implementation and communication of results to employees. In 2016, the survey questionnaire was completed by more than 88% of eligible employees.

Diversity in the workplace

In the Bank, diversity is seen as a source of strength. Therefore the priority is to promote a culture in which opportunities are available to all regardless of any differences between them.

All employees of the Bank are obliged to act in accordance with the law, internal regulations and standards. The Bank strives to create optimal opportunities for employees to use their potential, providing them with the opportunity to complete professional development and nurture their diversity with respect for their dignity regardless of their sex, race, religion or sexual orientation. Employees are required to treat their colleagues with respect. The above-mentioned expectations of the Bank are included in the "Principles of Conduct for Employees of Bank Handlowy w Warszawie S.A."

Since 2013, the Bank has been a signatory of the international "Diversity Charter" initiative, which obliges the company to ban discrimination in the workplace and to take measures for the creation and promotion of diversity and expresses its readiness to engage all employees and business and social partners in these activities.

Each year, the Bank holds the Diversity Week during which employees are invited to participate in activities such as workshops, training sessions and panel discussions.

The Bank also supports bottom-up employee initiatives which are taken by the employees themselves, among other CitiWomen and CitiClub.

The mission of CitiWomen is to create favorable conditions for women's professional development, assistance in overcoming barriers and providing opportunities to pursue ambitions while maintaining a balance between work and private life. The goals of CitiWomen Poland (CWP) include supporting women working at Citi & Citi Handlowy in Poland in the discovery and release of their potential by providing additional training opportunities, networking and the exchange of experiences, as well as the discovery and development of women's talents and helping to improve leadership skills. The mission of CitiWomen Poland is pursued through a variety of activities which include, among others: organizing team building and networking meetings; organizing training courses, workshops and lectures; creating project teams for immediate needs, including teams coordinating the organization of CWP initiatives in Citi Group centers outside Warsaw; sharing and exchanging information between employees, including through their own intranet site; encouraging cooperation between women at various stages of professional development. CWP activities are coordinated by the Steering Committee (SC) – a group of the most active supporters of the initiative elected in an open vote.

CitiClub was established in order to organize leisure, including diverse cultural, sports and tourist activities. The club promotes a broad integration of employees, which affects their sense of job satisfaction. Within CitiClub, "Citi Socially Active" sporting projects are held in combination with charitable collections for the needy.

Dialogue and freedom of association

There are two trade unions in the Bank: "Solidarity" – Mazowsze Region Intercompany Trade Union Organization No. 871 at Bank Handlowy w Warszawie S.A. and the Trade Union of Employees of Bank Handlowy w Warszawie S.A.

Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.

This Code provides an overview of the most important internal regulations in force at the Bank. All employees of the Bank are obliged to act in accordance with the applicable laws, internal regulations and standards accepted in the Bank. The Bank strives to create optimal opportunities for employees to use their potential, providing them with the opportunity to develop and nurture their diversity with respect for the dignity regardless of sex, race, religion or sexual orientation. The Code includes a formal process solutions for reporting violations. The Bank operates the Ethics Line where employees can report issues regarding the selection of the best course of action in a particular situation or in the case of justified suspicions or information about a potential violation of laws or ethical standards and regulations of the Bank. Reports to the Ethics Line can be made by telephone or e-mail. Reports can also be submitted anonymously.

Every year, the Bank employees receive online training on the Code of Conduct which is mandatory.

Each newly hired employee receives the content of the Code of Conduct and is obliged to sign a statement confirming having read them and compliance therewith in daily work.

Employee voluntary work programme

The Bank has the largest employee volunteer program in Poland coordinated by the Leopold Kronenberg Foundation at Citi Handlowy. It aims to encourage community initiatives of the Bank's current and former employees. In 2016, a record number of 256 volunteer projects for more than 33,000 recipients were completed. Volunteers (including from outside the organization) engaged in social activities 3,734 times. As part of their activities they supported local communities, residential institutions, community organizations, local government units and animal shelters. The key initiative in the last year was the 11th edition of the Citi Global Community Day. Every year, the Bank's employees and their families and friends try to respond to specific needs in communities close to them within the framework of this project. In 2016, Citi volunteers carried out 217 social projects for the benefit of more than 31,000 recipients during the Citi Global Community Day.

In 2016, key projects, i.e.: the Christmas "Become Santa's Assistant" action and team building trips combined with volunteering were continued. In addition, as part of year-long mobilization volunteers were invited to attend meetings of the Volunteer Club, engaging in Senior Volunteering as well as social activities within the framework of regularly sent proposals for individual volunteering.

The variety and number of completed projects shows that the social involvement of the Bank's employees is constantly strengthening and expanding, bringing more benefit to a wider group of beneficiaries – which is confirmed by the statistics collected.

In 2016, the Leopold Kronenberg Foundation at Citi Handlowy conducted a survey among Citi volunteers for the fifth time. The purpose was to measure satisfaction derived from community work so far and to determine expectations with respect to participation in the Program and the benefits of engaging in volunteering (both for employees and for the employer). In addition to the satisfaction derived from helping others, volunteers also recognize that the implementation of projects brings them professional benefits. Those surveyed state that volunteering has had a positive impact on their motivation, and 53% also believe that it enables them to derive greater satisfaction from their daily work. More than 76% of respondents perceive volunteering as a reason to think of their company more favorably. 73% believe that Citi is a socially responsible company, and 82% think that it is guided by high ethical standards.

Since 2015, the results of Citi volunteers' efforts within the framework of its largest social campaign – the Citi Global Community Day – have been measured in a survey targeted at partner organizations. The survey conducted in 2016 demonstrated that all partners were satisfied with their cooperation with Citi volunteers and declared their willingness to continue the partnership. As many as 99% of respondents were definitely satisfied with the project implemented. The same percentage confirmed the achievement of the goals set. In the case of 75% of organizations, a decrease in organizational costs was observed, and 27% reported a large impact of cooperation with qualified Citi staff on streamlining management processes within their organization (e.g. in the IT, HR and finance areas). All respondents would strongly recommend working with Citi volunteers to other organizations.

In addition, the Leopold Kronenberg Foundation at Citi Handlowy together with the National Cultural Centre and the Centre for Thought of John Paul II organized the "Volunteering in Culture" nationwide conference, which was held from 5 to 7 December 2016 at Teatr Wielki – Opera Narodowa (Grand Theatre – National Opera). It was the first such event, enabling experts and practitioners to share knowledge in the field of volunteer management at cultural institutions with participants. Citi volunteers took an active part in the conference, participating in panels and sharing their experience in conducting social projects as well as assisting in the organization of the event. The conference was attended by representatives of 108 institutions from 40 cities. It was also accompanied by the first edition of the Tickets for Volunteers event. From 3 to 12 December, 65 institutions from 12 cities across Poland made more than 2,500 tickets for training courses, workshops, performances, film screenings and exhibitions available to volunteers.

1.3 Environmental initiatives

One of the important rules of conduct at the Bank is taking care for the environment. The Bank is committed to conducting its business in accordance with the principles of sustainable development. In 2007, a resolution of the Management Board introduced a comprehensive Environmental Management Plan. In 2012, the Management Board accepted the Environmental Policy and implemented the Environmental Management System (EMS). In 2013, the Management Board introduced the

Energy Policy and implemented the Energy Management System (EMS). In 2015, the two systems were integrated into a single Environment and Energy Management System (EEMS). As part of the policies in place the Bank defined the following objectives: increasing the level of waste sorting and recycling; reduction of CO₂ emissions, striving to optimize utilities consumption; minimizing the consumption of natural resources; striving for the most efficient energy management; minimizing the use of energy resources; supporting purchases of energy-efficient products and services and ensuring improvements in energy performance.

Direct environmental impact

As part of the policies in place the Bank identified two main areas of impact on the environment. The first is the direct impact resulting from the activities of the Bank including but not limited to consumption of water, energy, paper, generated waste and pollutants emitted into the air. The second is the indirect impact arising from the provision of services by the Bank. As part of the integrated system (EEMS) the Bank's locations are monitored for the consumption of electricity, water, gas, heat and the amount and type of waste generated and greenhouse gas emissions.

From 2012 to 2016, the Bank implemented a number of environmental projects involving upgrades of installations and building facilities: among others, upgrades of air conditioning installations, including precise ones, a system for recovering rainwater, introducing waste sorting at all major Bank buildings as per sorting guidelines, upgrading heat exchanger stations, BMS automation, installing card-controlled air conditioning switches in conference rooms, upgrading and replacing elevators with new ones fitted with energy recovery systems, changing building lighting to LED fixtures, building bicycle sheds for staff, arranging green areas around main buildings and improving the thermal insulation of buildings: replacing windows and other upgrades. As part of EEMS procedures, the effects of the efforts implemented are regularly analyzed and studied; these measures have confirmed the effectiveness of the system in reducing the consumption of utilities.

In 2015, the efforts implemented brought tangible results for the Bank and for the environment, i.e. a reduction in electricity consumption by 7,137.86 MWh compared to 2014 and by 27,684.42 MWh per year compared to 2012, which was reflected in a reduction in CO₂ emissions by 713.8 tonnes compared to 2014 and by 2,768.4 tonnes compared to 2012. In addition, water consumption was reduced by 6,075 m³ compared to 2012; in relation to 2014, however, it increased, with the figure being -74m³. In 2015, heat energy consumption was reduced by 616.24 GJ relative to 2014 and by 6,222.46 GJ compared to 2012.

Both in 2015 and 2016, the Bank successfully passed a supervisory audit concerning the conformity of the Environmental and Energy Management System to the requirements of the ISO 14001 standard and re-certification audit concerning the conformity of the Environmental and Energy Management System to the requirements of the ISO 50001 standard. The results of the audit confirm the efficient operation of the EEMS and the achievement of its objectives.

Employee education

The Bank carries out educational and information campaigns on environmental protection addressed to employees and service providers. These include training and communications as well as articles made available on intranet sites to encourage proper segregation of waste, saving energy and water, and spreading knowledge of the Environment and Energy Management System. Every year, the Bank also takes an active part in the Earth Hour and the Earth Week actions. In 2015, during the Earth Hour, power was turned off in 16 branches; in 2016, more buildings and branches joined. During the Earth Week in 2016, there was a Hybrid Car Town where employees could test such vehicles for one week. On the company intranet, announcements were published concerning the environmental projects implemented within the framework of the EEMS, waste sorting and consumption of natural resources. The Bank took part in the "My city without electro-waste" campaign – it purchased and placed containers for electro-waste for employees in the buildings. For the electro-waste collected, the Bank received vouchers, which it gave to a school in Warsaw for the purchase of teaching materials and aids for students.

Indirect environmental impact

Under the agreement signed with the Kreditanstalt für Wiederaufbau (KfW) bank and using EU funds, in 2016 the Bank offered to its clients repayable and non-repayable financing (grants) from the ELENA (European Local Energy Assistance) program, which was implemented by KfW in other EU Member States as well as part of a wider Community initiative – the IEE II (Intelligent Energy Europe) Program. The program supported local or regional authorities and other public entities fulfilling statutory tasks of local or regional authorities in order to meet the assumptions of the 20-20-20 strategy and was designed to facilitate the financing of energy efficiency projects by local authorities. In 2016, a project was implemented that involved the thermal efficiency improvement of 17 multi-family residential buildings belonging to a municipality that was a BHW client. According to project assumptions, the implementation of the project should result in annual energy savings of 2,270 MWh for the upgraded buildings.

1.4 Local community involvement and development

The Leopold Kronenberg Foundation at Citi Handlowy has been active for years in the areas of entrepreneurship and financial education, protection of cultural heritage and employee volunteering, while paying considerable attention to the development of local communities. In 2016, the Foundation celebrated its 20th anniversary. It was established in 1996, on the 125th anniversary of the establishment of Bank Handlowy w Warszawie S.A. Within two decades, its financial education programs benefited more than 2,300,000 direct participants from different age groups: children, youth, adults and seniors. We awarded 1,339 grants to more than 1,000 non-governmental organizations.

The Foundation coordinates one of the largest and oldest employee volunteering schemes in Poland (established in 2005). Since the beginning of the program, Citi Handlowy volunteers have been involved in 20,200 voluntary activities, worked 111,000 hours and helped more than 240,000 beneficiaries. Every year, the program covers nearly 250 outlets, and around 23% of Citi staff are involved in volunteering.

Protection of cultural heritage is one area in which the Foundation is active. As part of its program of recovering works of art, 42 prints and lithographs by outstanding Polish painters (Juliusz Kossak, Leon Wyczółkowski) and two paintings (by Anna

Bilińska-Bohdanowiczowa and Wojciech Gerson) returned to Poland. 172 exhibits from a collection of silverware were recovered as well. The Aleksander Gieysztor Award was given to 17 individuals and institutions in recognition of their efforts aimed at the protection of Polish cultural heritage. In 2016, the ArtSherlock application was launched, which enables the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone. It was downloaded 7,000 times and made the list of 50 best applications of 2016 compiled by the *Esquire* magazine, and the list of the best iOS applications of 2016 compiled by the Antyweb blog.

Leopold Kronenberg Foundation at Citi Handlowy programs

- The **Citi Handlowy Emerging Market Champions Award** was established to promote companies which have successfully expanded into international markets. The project includes a survey of the business climate in Poland and the global potential of domestic companies. The award ceremony of the third edition of the competition took place on 29 September 2016 during the European Forum for New Ideas in Sopot. Amica S.A. was named the Emerging Market Champion in the "Polish Foreign Investment" category, and the winner in the "Foreign Investment in Poland" category was CEMEX Polska sp. z o.o. The project involved the third edition of a survey diagnosing the operation of Polish companies abroad. This concerned their methods of selling abroad.
- The **Aleksander Gieysztor Award** is the most prestigious award given annually to institutions or individuals in recognition of their efforts for the protection of Polish cultural heritage. Winners of the 17th edition were Krystyna Zachwatowicz-Wajda and Andrzej Wajda. They were honored for promoting Polish culture with their outstanding achievements in the fields of film and theater as well as for increasing public awareness of the need to protect cultural heritage in Poland and their efforts aimed at its preservation and popularization.
- **Recovery of Polish Art** is a program which aspires to recover the cultural heritage lost by Poland during and in the wake of WWII. In May 2016, the Leopold Kronenberg Foundation at Citi Handlowy launched the Art Sherlock application. It is an original project of the Communi Hereditate Foundation implemented in cooperation with the Ministry of Culture and National Heritage and the Leopold Kronenberg Foundation at Citi Handlowy. This is the first solution of its kind, which will completely revolutionize the identification of works of art that were plundered during wars. The application will enable the automatic identification of artworks solely on the basis of a photograph taken with a mobile phone.
- **Roots** is a program under which the Foundation promotes the history of the Bank and the profile and achievements of its founders, the Kronenberg family. In 2016, the measures initiated in previous years were continued. Since 2014, the digital archive created within the framework of the "Roots" program can be used for the Foundation's and the Bank's internal purposes. The archive contains more than 31,000 pages of scanned documents and pictures concerning the activities of Bank Handlowy and of the Kronenberg family. These materials are used for promotional purposes on special occasions – anniversaries related to the Bank and to Leopold Kronenberg.
- **Employee Volunteering Program of Citi Handlowy** aims to promote the social commitment of present and former employees of the Bank. In 2016, the 11th edition of the Citi Global Community Day was held. During the Community Day, 217 projects were implemented. Citi volunteers and their friends and acquaintances were engaged nearly 3,734 times, helping more than 31,000 people.
- The **Grant Program** is a competition through which the Leopold Kronenberg Foundation at Citi Handlowy supports the most valuable projects conceived by not-for-profit organizations in the area of education and local development. In 2016, 7 grants were allocated.

Programs implemented with the support of the Citi Foundation

- **My Finances:** is the largest financial education program for young people in Poland. The program is sponsored by the Leopold Kronenberg Foundation and the National Bank of Poland, and conducted by the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). In 2016, the number of students covered by the program amounted to 90,000. The program was pursued by 1,600 teachers.
- **Week for Saving:** an educational action in the media which promotes savings and the skills of rationally managing personal finances among Poles. It is implemented together with the Think! Foundation. The goal of the action is to achieve systemic changes in the education area focused on the management of personal finances. The media campaign on the occasion of the 9th edition of the "Poles' attitudes to finances" survey reached nearly 3,000,000 people. Under the project, additional surveys were conducted on Christmas spending in Poland as well as on the Poles' entrepreneurial competences. Their results will be published in 2017.
- **Be Entrepreneurial** is a financial education program addressed to upper secondary school students. It is carried out in collaboration with the Junior Achievement Foundation Poland (Fundacja Młodzieżowej Przedsiębiorczości). Its objective is to provide learning opportunities and teach students the attitudes and skills in the area of broadly defined entrepreneurship by founding and running businesses in the legal form of a general partnership. 2,640 students from 220 schools participated in the program in 2016.
- **"Business Startup" Program:** a two-part program which supports young entrepreneurs (providing assistance in opening and running a business and support for existing companies). It is implemented in cooperation with Academic Incubators of Entrepreneurship. The objective of the project is to promote entrepreneurship among students and to help them make their business visions come true. In 2016, the program was attended by 200 students and 100 start-ups already operating on the market.
- **Business in Women's Hands** is a program addressed to women who want to start their own business carried out in cooperation with the Women Entrepreneurship Foundation. By taking advantage of lectures, training sessions and individual work with mentors, each participant has a chance to successfully launch a business. The objective of the program is to create a cluster of women's companies in Warsaw. In 2016, the third edition of the program began, which will be completed in mid-2017.

- **Hi-Tech Startup** is a project implemented by the Leopold Kronenberg Foundation at Citi Handlowy in cooperation with the Academic Business Incubators and the Institute of Applied Research of the Warsaw University of Technology. The project aims to commercialize technology concepts so that their creators have a chance to find employment in organizations interested in their technological solutions, are able to sell their ideas to investors or start their own businesses. After passing a rigorous screening process, 10 projects were identified as "ready investments". During the final gala of the project in June 2016, the three most promising startups had their presentations.

2. Cultural patronage and sponsorship

In mid-March, the **Smart City Forum** conference was held in Warsaw – an event that is the response to the global transformation now underway with respect to the construction and operation of smart cities. Citi Handlowy was a partner of the **Smart City Grand Gala**, during which awards for achievements in 2015 were presented. One of the awards (in the Person of the Year category) was presented by Member of the Management Board of Citi Handlowy Mr. Czesław Piasek. It went to the President of Rzeszów Mr. Tadeusz Ferenc who has initiated the rapid development of his city. The conference also featured a speech by Head for Co-Operation with the Public Sector Mr. Radosław Szewczak on the financing of Smart City investments and Smart banking solutions.

In May and June 2016, a series of debates were held under the auspices of the *Puls Biznesu* daily as part of the seventh edition of the **"Time for Economic Patriotism"** program, which brings together representatives of political and business circles, including representatives of Citi Handlowy. The Bank was a partner of the initiative once again. The inaugural debate was attended by President of the Bank's Management Board Mr. Sławomir S. Sikora, and the panel devoted to attracting foreign investors featured Head of Global Subsidiaries Group at Citi Handlowy Mr. Jacek Czerniak. The special supplement of *Puls Biznesu* also included a statement by the Head of Strategic Client Department Mr. Piotr Kosno.

During the European Economic Congress in Katowice in May and the Economic Forum in Krynica in September, Citi Handlowy was a partner of the **AmCham Dinner**. During the Forum in Krynica, President of the Bank's Management Board Mr. Sławomir S. Sikora took part in the "Transatlantic Business Bridge" debate held by the American Chamber of Commerce. He took part in the discussion, which included, among others, the Minister of Foreign Affairs Mr. Witold Waszczykowski, and a representative of the American Embassy – Senior Commercial Counselor Mr. Charles Ranado. During the meeting, which lasted more than one hour, topics related to trans-Atlantic economic cooperation, Polish companies investing in the U.S. and expectations for the TTIP (Transatlantic Trade and Investment Partnership) were discussed. Head of Global Subsidiaries Group Mr. Jacek Czerniak attended the discussion on the results presented in the "Polish Startups 2016" report.

During the **European Forum for New Ideas (EFNI)**, which took place in Sopot in the last days of September 2016, awards in the third edition of the Emerging Market Champions competition organized by the Leopold Kronenberg Foundation at Citi Handlowy were presented. The winners were CEMEX Polska sp. z o.o. and Amica S.A. The award ceremony was accompanied by a debate on the challenges now faced by emerging economies, which was attended by Mr. Marek Belka – former Prime Minister and President of the National Bank of Poland, Mr. Jerzy Hausner – former Deputy Prime Minister and Member of the Monetary Policy Council, Mr. Grzegorz Kołodko – former Deputy Prime Minister and Minister of Finance and Citi's Global Economist Mr. Ebrahim Rahbari. The debate was facilitated by Member of Citi Handlowy Supervisory Board Mr. Andrzej Olechowski who also chaired the Chapter of the Emerging Market Champions Competition.

On 29 and 30 September 2016, Citi Handlowy was the partner of the **"Engineering the Future 2016"** event – a scientific and industrial conference on innovative technical and organizational solutions for the industry held by the Institute for Sustainable Technologies – National Research Institute.

In October 2016, the Koźmiński University in Warsaw held the **"What Future for the Polish Economy?"** conference attended by Deputy Prime Minister Mateusz Morawiecki and former Deputy Prime Ministers responsible for economic policy. Citi Handlowy was a partner of the conference. The purpose of the conference, which was organized by the TIGER Center for Transformation, Integration and Globalization, was to discuss the internal and external conditions of, and prospects for the development of the Polish economy. The debate was attended by experienced economic policy practitioners as well as academics involved in economics, management, finance, banking and law.

In mid-November 2016, Citi Handlowy supported the **Open Eyes Economy Summit** conference as its partner. During the event, the President of the Bank's Management Board Mr. Sławomir S. Sikora attended the inspirational session "Value for the Bank, Value for the Client" together with the presidents of two other major banks. After that, he took part in a question and answer session with the representatives of the Management Boards of ING, mBank and Deutsche Bank, which also featured the former Chair of the Polish Financial Supervision Authority Mr. Andrzej Jakubiak. On the second day of the conference, Member of the Bank's Management Board and Head of the Operations and Technology Sub-Sector Ms. Katarzyna Majewska participated in an inspirational session devoted to cybersecurity.

In 2016, Citi Handlowy supported the development of golf in Poland as a partner of the Polish Golf Association.

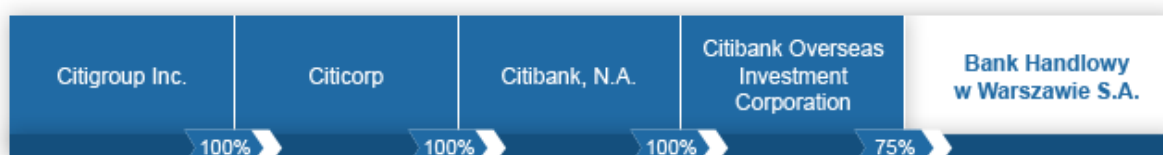
IX. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. Throughout the year 2016, neither the number of shares held by COIC nor its participation in the share capital and votes at the GSM of the Bank changed, and stood at 97,994,700 shares representing a 75% participation in the share capital and votes at the GSM.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:



The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

Among shareholders participating in the share capital of the Bank are open-end pension funds which, in accordance with public information about the structure of assets as at 31 December 2016, held a total of 13.93% of shares of the Bank, which was a decrease of 0.14 p.p. against 31 December 2015.

Shareholding of Open Pension Funds in the Bank was as follows:

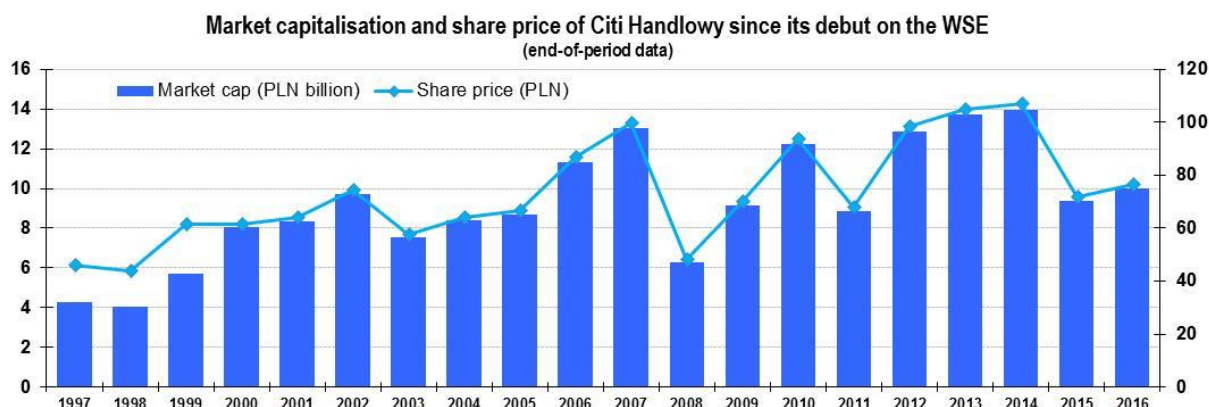
| Shareholder | 31.12.2016 | | 31.12.2015 | |
|--|-----------------------------------|--|-----------------------------------|--|
| | Number of shares and votes in GSM | % of total number of shares and votes in GSM | Number of shares and votes in GSM | % of total number of shares and votes in GSM |
| Nationale – Nederlanden OFE (previous ING OFE) | 5,041,389 | 3.86% | 5,096,781 | 3.90% |
| Aviva OFE Aviva BZ WBK | 4,028,293 | 3.08% | 4,072,554 | 3.12% |
| OFE PZU „Złota Jesień” | 2,066,895 | 1.58% | 2,089,605 | 1.60% |
| MetLife OFE | 1,422,669 | 1.09% | 1,438,301 | 1.10% |
| AXA OFE | 1,284,269 | 0.98% | 1,298,380 | 0.99% |
| Allianz Polska OFE | 1,073,285 | 0.82% | 1,085,078 | 0.83% |
| Aegon OFE | 877,426 | 0.67% | 887,067 | 0.68% |
| Nordea OFE | 683,429 | 0.52% | 674,387 | 0.52% |
| Generali OFE | 551,014 | 0.42% | 557,068 | 0.43% |
| PKO BP Bankowy OFE | 467,208 | 0.36% | 396,916 | 0.34% |
| Pekao OFE | 363,785 | 0.28% | 344,193 | 0.30% |
| OFE Pocztylion | 340,452 | 0.26% | 446,516 | 0.26% |
| Total | 18,200,114 | 13.93% | 18,386,845 | 14.07% |

Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.

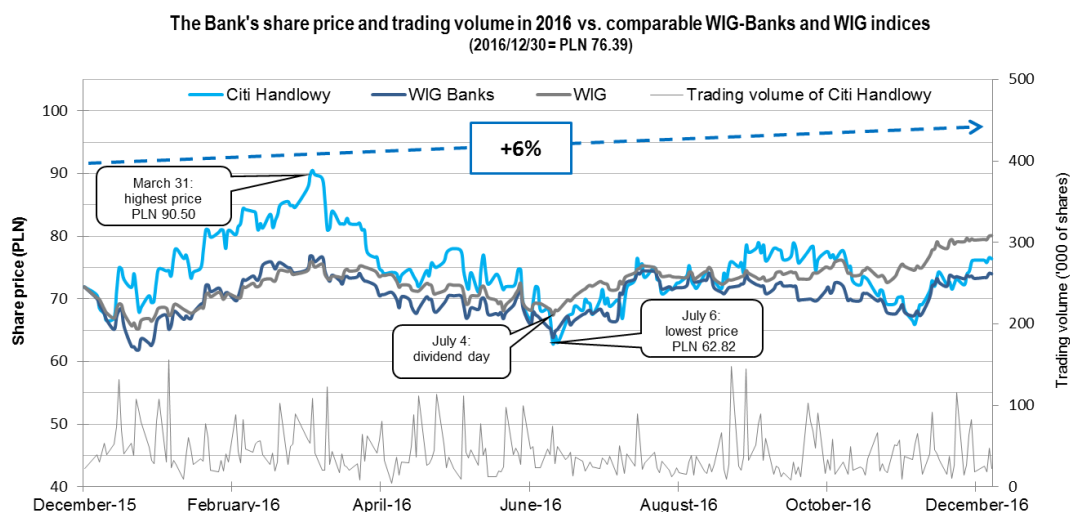
1.2 Performance of the Bank's shares on the WSE

In 2016, the Bank was included in the following indices: WIG, mWIG40, WIG Banks and WIGdiv. Additionally, the Bank has been present, since it was first compiled, in the RESPECT Index including socially responsible companies listed on the WSE Main Market.

In 2016, all main WSE indices gained compared to 2015. The price of the Bank's shares also increased. The Bank's shares closed on the last session in 2016 (i.e. 30 December 2016) at PLN 76.39, i.e. 6% higher as compared to the level as at 30 December 2015, which amounted to PLN 71.90. In the same period, the WIG and WIG-Banks indices advanced by 11% and 3% respectively.



The capitalization of the Bank at the end of 2016 stood at PLN 10.0 billion (compared to PLN 9.4 billion at the end of 2015). Stock market indices amounted to: price/earnings (P/E) – 16.5 (in 2015: 15.0); price/book (P/B) – 1.5 (compared to 1.4 in the previous year).



The price of Bank shares in the first three months of 2016 showed a clear upward trend. In March, the Bank's share price reached its maximum level in 2016, i.e. PLN 90.50. In the later part of the first half of 2016, the Bank's shares were in a downward trend which stopped in July. On 6 July 2016, the price of the Bank's shares dropped to the lowest level in 2016, i.e. PLN 62.82. In the second half of 2016, the share price rose. Finally, on 30 December 2016, the price equaled PLN 76.39.

The Bank's average share price in 2016 was PLN 74.82 and the average daily volume of trading in the Bank's shares was slightly higher than 41,500.

2. Dividend

On 14 March 2017, the Management Board adopted a resolution on the proposed distribution of net profit for 2016 and recommended to allocate for the payment of the dividend 98.0% which is PLN 4.53 per ordinary share.

The final decision on the distribution of net profit for 2016 will be made by the General Meeting of the Bank.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

| Financial year | Dividend (PLN) | EPS (PLN) | Dividend per share (PLN) | Dividend pay-out ratio |
|----------------|----------------|-----------|--------------------------|------------------------|
| 1997 | 130,000,000 | 6.21 | 1.40 | 22.5% |
| 1998 | 93,000,000 | 3.24 | 1.00 | 30.8% |
| 1999 | 186,000,000 | 5.08 | 2.00 | 39.4% |
| 2000 | 130,659,600 | 1.57 | 1.00 | 63.8% |
| 2001 | 163,324,500 | 1.25 | 1.25 | 99.8% |
| 2002 | 241,720,260 | 1.86 | 1.85 | 99.6% |
| 2003 | 241,720,260 | 1.86 | 1.85 | 99.7% |
| 2004 | 1,563,995,412 | 3.17 | 11.97 | *) |
| 2005 | 470,374,560 | 4.51 | 3.60 | 79.8% |
| 2006 | 535,704,360 | 4.75 | 4.10 | 86.4% |
| 2007 | 620,633,100 | 6.19 | 4.75 | 76.8% |
| 2008** | - | 4.94 | - | - |
| 2009 | 492,586,692 | 4.02 | 3.77 | 94.0% |
| 2010 | 747,372,912 | 5.72 | 5.72 | 99.9% |
| 2011 | 360,620,496 | 5.52 | 2.76 | 50.0% |
| 2012 | 756,519,084 | 7.72 | 5.79 | 75.0% |
| 2013 | 934,216,140 | 7.15 | 7.15 | 99.9% |
| 2014 | 971,422,828 | 7.43 | 7.43 | 99.9% |
| 2015 | 611,486,928 | 4.75 | 4.68 | 98.6% |
| 2016*** | 591,887,988 | 4.62 | 4.53 | 98.0% |

*) Dividend-pay-out ratio for 2004 - 100% plus prior year profits

** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008

*** As recommended by the Management Board on March 14, 2017.

3. Rating

As at end 2016, the Bank was fully rated by an international rating agency: Fitch Ratings ("Fitch").

On 9 November 2016, as a result of the annual review of credit ratings, Fitch upgraded the Bank's Viability Rating to "a-"

from "bbb+". As rationale for its Viability Rating upgrade, the Agency stated in its announcement that the Bank's rating took into account its conservative business model, low risk appetite and strong capital and liquidity buffers. Other ratings remained unchanged. At the same time, the Bank was assigned two new ratings:

- National Long-Term Rating at "AA + (pol)";
- National Short-Term Rating at "F1+ (pol)".

As at the end of 2016, the Bank had the following ratings awarded by Fitch:

| | |
|----------------------------|-----------|
| Long-term entity ranking | A- |
| Long-term rating outlook | stable |
| Short-term entity ranking | F1 |
| Viability rating* | a- |
| Support rating | 1 |
| National long-term rating | AA+ (pol) |
| National short-term rating | F1+ (pol) |

* The viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.

4. Investor relations

Investor relations, which ensure information to existing and potential investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater to the information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main tools of the information policy are:

- systematic contacts with investors and analysts in the form of teleconferences and meetings, also at the Bank's premises, attended by members of the Management Board of the Bank;
- support of the Press Office during quarterly press conferences for the media, organized after publication of interim reports;
- publishing current information on the Bank and its projects as well as all current and interim reports on the website. The website also enables contacts with the Investor Relations Office (IRO) which has broad knowledge of the Bank and the Capital Group;
- enabling media to be present at the General Meeting of the Shareholders of the Bank.

As part of investor relations activities in 2015, the Bank organized four conferences for analysts and investors on financial performance, important events and business achievements of the Bank.

Furthermore, members of the Management Board and representatives of the Investor Relations Office participated in regular meetings with investors and analysts (at the Bank's premises and at investor conferences).

X. Statements of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules in 2016

1. Corporate governance rules applied by Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. ("Bank", "Company") wants to become the most respected financial institution in Poland with a considerable focus on business and social responsibility. Since 2003, the Bank has complied with the corporate governance principles approved by the Warsaw Stock Exchange ("WSE"), originally published as the "Best Practices at Public Companies 2002", and subsequently amended by the following documents: "Best Practices at Public Companies 2005" and "Best Practices for WSE Listed Companies 2008", and finally, as of 1 January 2016, "Best Practices for WSE Listed Companies 2016" ("Best Practices"), available at www.corp-gov.gpw.pl, the official website of Giełda Papierów Wartościowych w Warszawie S.A. dedicated to corporate governance at the companies listed on the WSE Main Market and on the NewConnect market.

The key objective of the adoption of the corporate governance rules as a standard of the Bank has been to establish transparent relations among all corporate bodies and entities involved in the Company's operation as well as to ensure that the Company and its enterprise are managed properly, with due diligence and loyalty with respect to all shareholders. The willingness to ensure transparency of the Bank's operations, and especially of the relationships between the Company's statutory bodies and their processes, caused the Bank to adopt the best practices as set forth in the Best Practices.

The Bank continues to undertake initiatives to achieve better transparency of the Bank's organization, division of rights and responsibilities and the operation of its governing bodies and their mutual relationships. To this end:

- The Bank has published its financial reports in accordance with the International Financial Reporting Standards (IFRS) since 1 January 2005;
- The Supervisory Board includes independent members;
- As part of the Supervisory Board, Audit Committee has been established, which is composed of at least two independent members of the Supervisory Board, one being the Committee's Chair;
- Salaries of the members of the Company's governing bodies are adequate to the size of the Company and reflect their scope of responsibilities;
- All significant internal regulations as well as information and documents relating to the Bank's General Meetings are available at the Bank's registered office and on its website.

2. Corporate governance rules set forth in the Best Practices for WSE Listed Companies which were not applied by the Bank in 2016

In 2016, the Bank did not apply the following rules and recommendations arising from the Best Practices:

- a) Rule VI.Z.2. concerning the determination of the period between the award of options or other instruments linked to company shares under an incentive scheme and the possibility of exercising such options or instruments, which should be a minimum of two years;
- b) Recommendation IV.R.1. concerning the holding of the annual general meeting of the Bank in 2016 as soon as possible after the publication of the annual report;
- c) Recommendation IV.R.2 points 2) and point 3) concerning enabling shareholders to participate in the general meeting by using means of electronic communication, in particular through two-way real time communication where shareholders are able to speak during the general meeting from a location other than the venue of the general meeting and are able to exercise, in person or by proxy, their voting rights during the general meeting.
- Ad (a) Rule VI.Z.2. Best Practices for WSE Listed Companies. The incentive schemes implemented at the Bank, including deferred cash remuneration and programs based on financial instruments, i.e. phantom shares, are in line with best practices for the banking sector and the requirements set forth in PFSA Resolution No. 258/2011 of 4 October 2011 and in the Banking Act, which implement CRD III and CRD IV. These regulations include slightly different requirements than those set forth in the Best Practices for WSE Listed Companies 2016. The Bank's incentive programs, which are based on the above regulations, reflect the specific features of the banking sector and are designed to protect the interests of the Bank's clients and shareholders as well as ensuring its stable growth. Details on incentive schemes are available in the Bank's annual report as well as in the Information concerning the capital adequacy of the Group of Companies of Bank Handlowy w Warszawie S.A. Depending on the provisions included in the regulations and laws on broadly understood remuneration policy in the banking sector, the Bank will consider amending its incentive schemes based on financial instruments.
- Ad (b) Recommendation IV.R.1. Best Practices for WSE Listed Companies. The Bank's calendar of corporate events in 2016 was determined prior to the entry into force of the "Best Practices for WSE Listed Companies 2016", i.e. before 1 January 2016. Thus the Recommendation was not followed in the case of the Annual General Meeting held in 2016.
- Ad (c) During the Annual General Meeting held on 21 June 2016 and during the Extraordinary General Meeting held on 22 September 2016, Recommendation IV.R.2. points 2) and 3) of the Best Practices was not followed. When assessing its ability to apply the recommendation, the Bank considered legal, organizational and technical risks related to providing shareholders personally absent at the GM with bilateral real-time communications, using means of electronic communications, which may adversely affect the progress of the GM. In the Bank's opinion, the possibility of exercising voting rights in the course of an electronic General Meeting using electronic means of communication raises objections and generates an increased risk of irregularities in the conduct of the General Meeting. Currently available technologies do not guarantee secure distance voting, which may affect the validity of the resolutions adopted, and thus result in significant legal consequences. The Bank took into account the potential technical problems including the identification of the shareholders, the choice of a suitable measure for bilateral communication, the inability to guarantee the hardware requirements on the shareholder's side, unpredictable delay times for different shareholders in different time zones, remote communication problems due to factors beyond the control of the Bank, including ones caused e.g. by regional problems related to individual components of the public Internet network.

3. Information on the application of Corporate Governance Principles for Supervised Institutions

By Resolution dated 22 July 2014, the Polish Financial Supervisory Authority issued a document entitled Corporate Governance Principles for Supervised Institutions ("Principles"). The text of the Principles is available on the www.knf.gov.pl/dla_rynku/zasady_ladu_korporacyjnego/index.html website, which is the official website of the Polish Financial Supervision Authority.

It is a set of principles that define the internal and external relations of institutions supervised by PFSA, including investor relations, client relationships, their organization, internal governance as well as the key systems and internal functions, statutory bodies and their cooperation.

The purpose of the Principles is to increase the level of corporate governance in financial institutions, in addition to improving transparency of their operations, which is intended to contribute to building trust in the financial market in Poland.

Bank Handlowy w Warszawie S.A. reviews the application of the Principles of Corporate Governance for Supervised Institutions on a regular basis.

On 25 February 2016, the Management Board of Bank Handlowy w Warszawie S.A. approved the Compliance Report containing an independent review of the application of the Corporate Governance Principles for Supervised Institutions.

On 26 February and 10 March 2016, the Audit Committee of the Supervisory Board, having reviewed the Compliance Report containing an independent review of the application of the Corporate Governance Principles for Supervised Institutions, recommended the Supervisory Board to approve the Report and to adopt for application in 2015 the rules arising from the Corporate Governance Principles for Supervised Institutions, with the exception of the principles in respect of which a decision has been made not to apply them.

On 11 March 2016, the Supervisory Board approved the Compliance Report containing an independent review of the

application of the Corporate Governance Principles for Supervised Institutions. Relying on the Report and taking account of the positive recommendation from the Audit Committee of the Supervisory Board, the Supervisory Board reviewed the application of the Corporate Governance Principles for Supervised Institutions in 2015, with the exception of the principles in respect of which a decision has been made not to apply them. The results of the independent review of the application of the Principles were communicated to the other governing bodies of Bank Handlowy w Warszawie S.A.

The Ordinary General Meeting of Shareholders:

- By Resolution No. 3/2016 of 21 June 2016, having examined the Management Report of Bank Handlowy w Warszawie S.A. for 2015 including the Corporate Governance Statement for 2015, the OGMS decided to approve the Management Report of Bank Handlowy w Warszawie S.A. for 2015 including the Corporate Governance Statement of the Management Board for 2015.
- By Resolution No. 4/2016 of 21 June 2016, the OGMS approved the Supervisory Board Report of Bank Handlowy w Warszawie S.A. for the period from the OGMS held in 2015 to the OGMS held in 2016, including the reports and reviews prescribed in the Corporate Governance Principles for Supervised Institutions in place at the Bank.

In accordance with the requirements of the Corporate Governance Principles for Supervised Institutions and the information policy in place at the Bank, following the independent review of the application of the Corporate Governance Principles for Supervised Institutions by the Supervisory Board of Bank Handlowy w Warszawie S.A., the Bank publishes information on the application of the Principles and exclusion of certain Corporate Governance Principles on its website.

With regard to three principles, a decision was made not to apply them:

1) para. 11.2 (related-party transactions) – this principle will not be applied to agreements concerning ongoing operating activity, and in particular to those related to liquidity, due to the nature of such transactions and the number of signed agreements.

2) para. 8.4 (electronic general meeting) – the IT solutions which are currently available do not guarantee the security and efficiency of electronic general assemblies. However, the Management Board does recognize the relevance of this form of shareholders' participation in the Bank's general meetings and therefore a separate decision in this regard will be taken prior to each general meeting.

3) para. 16.1 (Polish as the language of Management Board meetings) – Management Board meetings held with the participation of foreigners, and especially foreign members of the Management Board who do not speak Polish, are held in English. At the same time, all motions examined at Management Board meetings as well as any and all materials and minutes of the meetings are drafted and archived in Polish.

4. Description of main features of internal control and risk management systems in place at the Bank with respect to the process of preparation of financial statements and consolidated financial statements

The financial statements of the Bank are drawn up by the Financial Reporting, Control and Tax Department, which is a separate organizational unit in the Financial Division in the Management and Support Sector, reporting directly to the Chief Financial Officer and Vice-President of the Bank's Management Board.

The process of drawing up the financial statements is covered by the Bank's internal control system aimed at ensuring the accuracy and fairness of the data shown in the Bank's financial statements. The internal control system includes the identification and control of risks related to the process of drawing up the financial statements, monitoring of the Bank's compliance with legal provisions and internal regulations in this respect, as well as internal audit.

Functional internal control is exercised by every employee and additionally by their direct superiors, peers as well as managers of the Bank's organizational units with respect to the quality and correctness of the processes performed by employees with the objective of ensuring compliance of such activities with the Bank's control procedures and mechanisms. Risk management is performed by means of internal mechanisms of risk identification, assessment, prevention, control, monitoring and reporting, executed and supervised by specialized organizational units. The internal control functions include a separate financial control function performed by a separate unit of the Financial Division. The Bank's financial control in the Financial Sector covers accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment (RCSA) ensures an evaluation of control processes and represents a proactive, efficient key risk management process, integrated with the process of drawing up the financial statements. The quarterly RCSA process is a fundamental tool used for monitoring the operational risk levels and changes in the financial reporting environment, identification of new threats, verification of the effectiveness of control mechanisms, and implementation of corrective action plans. As part of the process for identification, prevention, control, monitoring and reporting of operational risk exposure, the Bank implemented effective risk mitigation mechanisms in the field of security of technology systems. The IT systems used in the process of drawing up the financial statements are covered by the Bank's COB plan.

The functional control system is supervised by the Bank's Management Board supported by the Risk and Capital Management Committee.

The Bank's internal audits are conducted by Internal Audit. Internal Audit is responsible for independent and objective assessment of the adequacy and effectiveness of the internal control system and assessment of the Bank's management system including the effectiveness of the management of risks related to the activities of the Bank. Internal Audit performs internal controls, undertakes the assessment of activities executed by organizational units of the Bank, and performs audits in subsidiaries of the Bank as part of the Bank's supervision of risks related to the activity of the subsidiaries in terms of their compliance with internal regulations, applicable legal provisions and regulatory requirements, as well as effective and rational control mechanisms. Internal Audit is a separate organizational unit of the Bank, reporting directly to the President of the Bank's Management Board.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of Internal

Audit. The Supervisory Board performs its functions with the support of the Audit Committee, which, as part of the supervisory function and in cooperation with the Bank's Management Board and the statutory auditor, verifies the fairness of the financial statements as well as proper execution of the processes related to their preparation and submits recommendations regarding the approval of the annual and interim financial statements by the Bank's Supervisory Board.

The Head of Internal Audit provides the Management Board and the Audit Committee of the Supervisory Board with audit findings and, on a periodic basis at least once per year, provides the Supervisory Board with collective information on the irregularities identified and conclusions drawn in the course of the internal audits performed as well as measures undertaken to eliminate the irregularities. The Head of Internal Audit has the right to participate in meetings of the Management Board and of the Supervisory Board at which issues related to the Bank's internal controls are considered.

5. Significant shareholdings

The Bank's shareholder holding a significant block of the Bank's shares is Citibank Overseas Investment Corporation (COIC), a subsidiary of Citibank N.A., which holds 97,994,700 shares, representing 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding is 97,994,700, representing 75% of the total number of votes at the Bank's General Meeting.

6. Holders of all securities with special control rights together with a description of those rights

The Bank did not issue any securities that would give special control rights to shareholders.

7. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

8. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

9. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years at the request of the President of the Management Board of the Bank. The appointment of two members of the Bank's Management Board, including the President and the member of the Management Board who manages the risk at the Bank requires the approval of the Polish Financial Supervision Authority.

The term of office of a member of the Management Board expires:

- 1) on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
- 2) upon death of the Management Board member;
- 3) upon dismissal of the Management Board member;
- 4) as of the date of resignation submitted to the Chair of the Supervisory Board in writing.

The Management Board decides, by way of resolutions, on the Company's matters not reserved by the applicable laws and the Articles of Association as a responsibility of another governing body, and in particular:

- 1) determines the strategy of the Company;
- 2) establishes and liquidates the Company's committees and determines their competences;
- 3) decides and submits them to the Supervisory Board for approval the Management Board's bylaws;
- 4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
- 5) decides on the date of payment of dividend within the timeline defined by the General Meeting of Shareholders;
- 6) appoints proxies, general attorneys and general attorneys with the right of substitution;
- 7) decides in matters defined in the Management Board bylaws;
- 8) makes decisions in issues brought by the President, Vice President or Member of the Management Board;
- 9) adopts the Company's draft annual financial plan, accepts investment plans and reports on their implementation;
- 10) accepts reports on the activities of the Company as well as financial statements;
- 11) formulates decisions regarding distribution of profit or coverage or losses;
- 12) approves the HR and credit policy as well as legal rules governing the Company's operation;
- 13) approves the principles governing the Company's capital management;

- 14) approves the employment structure;
- 15) determines and submits to the Supervisory Board for approval the fundamental organizational structure of the Bank adapted to the size and profile of risks and appoints and dismisses Heads of Sectors, Heads of Sub-Sectors and Heads of Divisions as well as determining their competences;
- 16) develops the plan of control measures undertaken at the Company and accepts reports on audits conducted;
- 17) resolves other issues subject to submission to the Supervisory Board or to the General Meeting pursuant to the Articles of Association;
- 18) decides on contracting liabilities or managing assets whose total value with respect to a single entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions; however, with respect to issues for which the Company's Committees have responsibility, such decisions are made upon consultation with the competent Committee;
- 19) determines the organizational structure and the scope of responsibilities of Internal Audit, including mechanisms ensuring audit independence;
- 20) develops, implements, approves and updates written strategies, procedures, plans and analyses, undertakes other measures in respect of the risk management, internal control and internal capital assessment system and reviews of the internal capital assessment and maintenance process;
- 21) introduces the division of the tasks executed at the Bank which assures independence of risk measurement, monitoring and control functions from the Bank's operating activity which generates risk for the Bank;
- 22) draws up and submits to the Supervisory Board periodical information showing the types and magnitude of risks in the Bank's activities;
- 23) decides and submits to the Supervisory Board for approval the Bank's information policy;

The following persons are authorized to submit matters for consideration by the Management Board:

- 1) President of the Management Board;
- 2) other members of the Management Board;
- 3) heads of other organizational units with respect to matters falling within the scope of the operation of such units, with the consent of the supervising member of the Management Board or the President of the Management Board.

With regard to matters concerning the fundamental organizational structure of the Bank and the appointment or dismissal of the Heads of Sectors, Heads of Sub-sectors and the Heads of Divisions and determining their competences at the initiative of the President of the Management Board or in agreement with the same.

The internal division of competences between the members of the Management Board is determined by the Management Board of the Bank in the form of a resolution of the Management Board and is subject to approval by the Supervisory Board of the Bank.

As part of the internal division of powers within the Bank's Management Board:

- 1) the position of the member of the Management Board who oversees the management of material risks in the Bank's operations has been distinguished;
- 2) Internal Audit reports directly to the President of the Management Board;
- 3) the President of the Management Board must not combine his or her function with the function of the member of the Management Board who oversees the management of material risks in the Bank's operations;
- 4) the President of the Management Board must not be entrusted with overseeing an area of the Bank's operations posing material risks in the Bank's operations;
- 5) the member of the Management Board who oversees the management of significant risks in the Bank's operations must not be entrusted with overseeing the area of the Bank's operations posing the risks whose management he or she oversees;
- 6) oversight of the area of compliance management and the area of accounting and financial reporting is assigned to a designated member or members of the Management Board.

10. Amendments to the Articles of Association

The General Meeting of the Bank is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the court register. Pursuant to Article 34, para. 2 in conjunction with Article 31, para. 3 of the Banking Act of 29 August 1997. Amendments to the Articles of Association of the Bank require the authorization of the Polish Financial Supervision Authority, if they concern:

- 1) the Bank's business name;
- 2) the Bank's registered office as well as the object and scope of its business activities;
- 3) the governing bodies and their powers, in particular those of members of the Management Board appointed upon the consent of the Polish Financial Supervision Authority, as well as the principles governing the decision-making process, the fundamental organizational structure of the Bank, principles for submitting declarations with respect to property rights and obligations, the procedure for issuing internal regulations and the decision-making process regarding contracting liabilities or disposal of assets whose total value with respect to one entity exceeds 5% of the Bank's equity;

- 4) the principles of functioning of the management system including the internal control system;
- 5) own funds and financial management principles;
- 6) share privileges or restrictions with respect to voting rights.

11. General Meeting procedure, description of its fundamental powers as well as shareholder rights and their exercise method

11.1 General Meeting procedure

The General Meeting of the Bank operates in accordance with the Bylaws of the General Meeting, the Articles of Association as well as applicable laws. The Bank's General Meeting ("General Meeting") follows stable Bylaws setting forth detailed principles for conducting meetings and adopting resolutions.

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. The ordinary General Meeting is convened by the Management Board of the Bank. It should be held within the first six months after the end of each financial year. The Supervisory Board has the right to convene an ordinary General Meeting if the Management Board fails to convene such meeting within the timeframe set in the Articles of Association and to convene an extraordinary General Meeting if the Supervisory Board considers it necessary. An extraordinary General Meeting is convened by the Management Board on its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request for convening an extraordinary General Meeting should be submitted to the Management Board in writing or in electronic form. If an extraordinary General Meeting is not convened within two weeks from submission of a request to the Management Board, the registration court may, by way of a decision, authorize the shareholder or shareholders who have made such request to convene the extraordinary General Meeting. The shareholder or shareholders authorized by the registration court should refer to the decision of the registration court mentioned in the previous sentence in the notice convening the extraordinary General Meeting. The chair of such an extraordinary General Meeting is appointed by the registration court. An extraordinary General Meeting may also be convened by shareholders representing at least one half of the Bank's share capital or at least one half of the total number of votes in the Bank. The chair of such a General Meeting is appointed by the shareholders. The General Meeting is convened by way of an announcement placed on the Bank's website and in the manner stipulated for the distribution of current filings by public companies, provided that such an announcement is made at least twenty-six days before the scheduled date of the General Meeting. Shareholders who have the right to demand that a certain issue be included on the agenda of a General Meeting should, in order to exercise such right, submit a motion to the Bank's Management Board in writing or in an electronic form along with a justification and a draft resolution related to the proposed item on the agenda, no later than twenty-one days before the date of the General Meeting. The Management Board will place the issue on the agenda of the next General Meeting immediately, no later than eighteen days before the scheduled date of the General Meeting. A General Meeting may be cancelled only if it has become expressly irrelevant or there are extraordinary obstacles preventing it. A General Meeting is cancelled, or its date is changed, in the same manner as it is convened, except that the twenty six day period is not applied. Cancellation or change of date of a General Meeting must be made in a manner minimizing the adverse effects for the Bank and the shareholders. The General Meeting can resolve not to consider an issue placed on its agenda and to change the order of issues included on the agenda. However, in order to remove an issue from the agenda or resolve not to consider an issue included on the agenda at the shareholders' request, prior consent is required of all present shareholders who have made such a request supported by 80% of votes at the General Meeting. Motions concerning such matters should be justified in a detailed way.

A full text of the documentation to be presented at the General Meeting along with the draft resolutions (and, if the case in question does not require passing of a resolution, along with comments of the Management Board) is placed on the Bank's website as of the day of convening such General Meeting together with other information on the General Meeting. Materials to be used at the General Meeting are made available at the Bank's registered office at the time specified in the Bank's announcement convening the General Meeting. Notwithstanding the foregoing, the Bank fulfills all disclosure requirements related to the convening of General Meetings imposed by the applicable laws.

The General Meeting is opened by the Chair of the Supervisory Board and, in his/her absence, by the Vice-Chair of the Supervisory Board or a member of the Supervisory Board. It is the Company's practice with respect to holding General Meetings that the Chair of the Meeting is elected immediately after opening the Meeting. The General Meeting does not make any decisions prior to the election of the Chair.

Through the party in charge of opening the General Meeting, the Bank's Management Board always provides the Chair of the General Meeting with instructions for performing such a function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of Association as well as internal regulations of the Bank. Members of the Bank's Management Board and Supervisory Board as well as the statutory auditor of the Bank should participate in the General Meeting if it discusses financial issues.

The General Meeting votes in an open ballot. Secret ballot is applied with respect to elections and motions regarding dismissal of members of the Company's governing bodies or liquidators, holding them liable, as well as in personal matters. In addition, secret ballot must be ordered upon the motion of at least one shareholder present or represented at the General Meeting.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

The Bank may organize the General Meeting in a manner allowing the shareholders to participate in the General Meeting using electronic communication means, in particular by way of:

- 1) real-time broadcast of the General Meeting;

- 2) two-way real-time communication enabling shareholders who use electronic communication means to speak during the General Meeting from a remote location;
- 3) exercising the voting right in person or through an attorney before or during the General Meeting.

The rules of shareholders' participation in the General Meeting and the procedures followed during the General Meeting, as well as the mode of communication between the shareholders and the Bank through electronic communication means, are set out in the Bylaws of the General Meeting. The Bylaws of the General Meeting may authorize the Bank to define means of communication between the shareholders and the Bank through electronic communication means other than those set out in the Regulations.

The Management Board will announce other means of communication in the announcement convening the General Meeting. Notwithstanding the foregoing, the Bank may broadcast the General Meeting online, record the Meeting and publish the record of the Meeting on the website of the Bank after the Meeting.

In practice, voting takes place through a computer system for casting and counting votes, which ensures that the number of votes cast corresponds to the number of shares held and eliminates the possibility to identify the votes cast by individual shareholders in the event of a secret ballot.

The Chair of the General Meeting should formulate resolutions in a manner ensuring that each authorized party who objects to the decision constituting the object of the resolution has an opportunity to appeal against it. The Chair of the General Meeting is obliged to ensure that resolutions are drawn up in a clear and explicit manner. Additionally, the Management Board of the Company provides the Chair with the potential assistance of the entity rendering legal services to the Company.

Resolutions adopted by the General Meeting are recorded in the form of minutes by a notary public. The minutes should state that the General Meeting has been properly convened and has the capacity to adopt resolutions, as well as list the resolutions adopted, the number of votes for each resolution as well as objections filed. The minutes should be supplemented with an attendance list, including signatures of the participants in the General Meeting. The evidence supporting the fact of convening the General Meeting should be enclosed by the Management Board in the book of minutes.

The Management Board encloses a copy of the minutes in the book of minutes.

General Meetings may be attended by the media.

11.2 Fundamental powers of the General Meeting

The General Meeting should be convened to:

- 1) examine and approve the Management Board's reports on the activities of the Company, its financial statements for the previous financial year as well as the consolidated financial statements of the Company's capital group;
- 2) adopt a resolution on profit distribution or loss coverage;
- 3) acknowledge the fulfilment of duties by the members of the governing bodies of the Company.

In addition to the powers set forth in mandatory provisions of law, the responsibilities of the General Meeting include:

- 1) disposing of and leasing the enterprise or its organized part and establishing a limited property right on the enterprise or its part;
- 2) amending the Articles of Association;
- 3) increasing or reducing the Company's share capital;
- 4) determining the date of exercising the pre-emptive right with respect to new issue shares;
- 5) determining the dividend record date for the previous financial year as well as dividend payment deadlines;
- 6) creating and liquidating special funds from profit;
- 7) appointing and dismissing members of the Supervisory Board;
- 8) determining the amount of remuneration paid to members of the Supervisory Board;
- 9) business combination or liquidation of the Company;
- 10) appointing and dismissing liquidators;
- 11) redeeming the Company's shares;
- 12) using the supplementary and reserve capitals, including the reserve capital created for the purpose of collecting undistributed profit (not allocated to dividend paid in a given financial year), as well as the general risk fund.

The General Meeting decides upon profit distribution by determining the amount of allocations for:

- 1) supplementary capital created on an annual basis with allocations from profit in the amount of at least 8% of the profit generated in a given financial year until the capital amounts to at least one third of the share capital. The General Meeting has the right to adopt a resolution imposing the obligation to make further allocations;
- 2) capital reserve;
- 3) general risk fund;
- 4) dividend;

- 5) special purpose funds;
- 6) other purposes.

In the event of the Company's liquidation, upon the motion of the Supervisory Board, the General Meeting appoints one or more liquidators and determines the liquidation method.

11.3 Shareholders' rights and their exercise methods

The Company's shares are disposable bearer shares. The shareholders have the right to a share of the profit disclosed in the financial statements audited by the statutory auditor, which has been allocated to payment to the shareholders by the General Meeting. The profit is distributed proportionately to the number of shares.

The right to participate in the General Meeting of the Bank as a public company is vested exclusively in persons who are the Bank's shareholders at least sixteen days prior to the date of the General Meeting (Date of Registration of participation in the General Meeting). A shareholder participating in the General Meeting is entitled to vote, file motions and raise objections as well as present a concise statement of reasons for his/her position.

Draft resolutions proposed for adoption by the General Meeting as well as other important materials should be provided to the shareholders together with a statement of reasons and the opinion of the Supervisory Board prior to the General Meeting within a time limit sufficient for the shareholders to read and evaluate the above documents.

A shareholder has the right to participate in the General Meeting and exercise his/her voting right in person or through an attorney.

Each shareholder has the right to stand as a candidate for the Chair of the General Meeting, as well as propose one candidate for the Chair of the General Meeting to the minutes.

Under every point of the agenda, a shareholder is entitled to make a statement and a response.

On a shareholder's request, the Management Board is obliged to provide him/her with information on the Company, on condition that such a request is justified for the purpose of evaluating the issue included in the agenda. The Management Board should refuse access to information if such an action:

- 1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;
- 2) could expose a member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board has the right to provide information in writing, not later than within 2 (two) weeks from the date of closing the General Meeting.

The governing bodies of the Company do not limit information but, at the same time, they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, the Regulation on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof, as well as the provisions of the Code of Commercial Companies.

The General Meeting is valid irrespective of the number of shares represented at it, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association of the Bank provide otherwise.

Each shareholder has the right to object to the provisions of a resolution adopted by the General Meeting as well as present his/her arguments and statement of reasons.

Each shareholder has the right to propose changes and supplements to draft resolutions included in the agenda of the General Meeting until the closing of the discussion regarding a particular item of the agenda with respect to the draft resolution to which the proposal applies. Proposals and their brief justifications should be presented in writing.

A shareholder may file a motion on a formal issue at the General Meeting. Motions on formal issues concern the procedure and voting.

Shareholders have the right to propose their candidates to the Bank's Supervisory Board in writing to the Chair of the General Meeting or orally to be included in the minutes; in both cases, the proposals require a brief justification.

Shareholders have the right to access the book of minutes and request the issuance of copies of resolutions certified by the Management Board.

Shareholders who voted against a resolution at the General Meeting and, after its adoption, requested their objection to be recorded in the minutes; shareholders who have not been admitted to participate in the General Meeting for no legitimate reasons; and shareholders absent from the General Meeting have the right to file an action regarding cancellation of a resolution adopted by the General Meeting only in the event that the procedure for convening the General Meeting was not executed correctly or a resolution was adopted with respect to an issue not included in the agenda.

Shareholders have the right to file an action against the Company in order to cancel a resolution adopted by the General Meeting which does not comply with an applicable legal act.

The Company's shares may be redeemed upon the consent of a shareholder through their acquisition by the Company (voluntary redemption). Share redemption requires the adoption of a relevant resolution by the General Meeting. The resolution should determine in particular the legal basis for the redemption, the amount of consideration payable to the shareholder of the redeemed shares, or a statement of reasons for share redemption without a consideration, as well as the

method of reducing the share capital.

The Bank ensures adequate protection of the minority shareholders' rights, within the limits imposed by its corporate status and the associated primacy of the majority rule principle. In particular, to ensure equal treatment of its shareholders, the Bank has adopted, among others, the following principles:

- General Meetings of Shareholders of the Bank are always held at the head office of the Bank in Warsaw;
- representatives of the media are allowed to be present at General Meetings of Shareholders;
- In accordance with the Bank's practice, all important materials prepared for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to shareholders no later than 14 days before the date of the General Meeting, at the Bank's registered office and on the Bank's website;
- General Meeting of Shareholders acts according to its stable bylaws that define in detail the rules of holding meetings and adopting resolutions;
- the General Meeting of Shareholders is attended by members of the Supervisory Board and Management Board who give explanations and information about the Bank to other participants of the Meeting within the scope of their responsibilities;
- members of the General Meeting of Shareholders who object to a resolution have the right to justify their objection. In addition, each participant of the Meeting is allowed a possibility to make a written statement recorded in the minutes of the Meeting.

12. Composition of and changes to the Management Board and the Supervisory Board of the Bank, rules of procedure of the Bank's managing and supervisory bodies

12.1 Management Board

The Management Board consists of five to nine members. Members of the Management Board are: President of the Management Board, Vice-Presidents of the Management Board and Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As at the day of signing this Report on Activities, the composition of the Company's Management Board was as follows:

| Member of the Management Board | Professional experience |
|---|---|
| Slawomir S. Sikora <i>President of the Management Board</i> | <p>The President of the Management Board is responsible for:</p> <ul style="list-style-type: none"> • directing the work of the Management Board, determining how to replace absent members of the Management Board; • convening and chairing meetings of the Management Board; • presenting the position of the Management Board to the Bank's governing bodies, state and local authorities as well as the general public; • filing motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their remuneration; • issuing internal regulations governing the Bank's operations and has the right to authorize the remaining members of the Management Board or other employees to issue such regulations; • deciding on the use of internal audit results and notifying the audited unit of any decisions made with respect to the audit; • exercising other rights under the bylaws adopted by the Supervisory Board; • overseeing the identification and implementation of Bank strategy; • supervising the internal audit unit; • supervising the risk of non-compliance of the Bank with the laws, regulations and market standards; • overseeing personnel policies; • shaping the image of the Bank; • ensuring the consistency of the organizational structure of the Bank; • overseeing the implementation of corporate governance; • overseeing legal services; • overseeing the Bank's security area in terms of protection of persons and property; <p>ensuring that the principles of operational risk management associated with the activities undertaken are in place at subordinated divisions and organizational units operating outside of the divisional structure.</p> |
| David Mouillé <i>Vice-President of the Management Board</i> | <p>Responsible for consumer banking, including for the quality standard of the banking services provided by the organizational units overseen, ensures the implementation at the units overseen of the operational risk management rules associated with their activities.</p> |

| Member of the Management Board | Professional experience |
|---|--|
| Maciej Kropidłowski <i>Vice-President of the Management Board</i> | <p>Responsible for:</p> <ul style="list-style-type: none"> operations on the financial markets, including money market, foreign exchange, securities and derivatives transactions; securitization operations; activities related to arranging financing for investment plans, mergers and acquisitions in the following areas: <ul style="list-style-type: none"> – syndicated loans; – bridge facilities; – debt securities; – project finance; – off-balance sheet financing. custodian and depositary activities; <p>and ensures that the principles of operational risk management associated with the activities undertaken are in place at the organizational units overseen.</p> |
| Barbara Sobala <i>Vice-President of the Management Board</i> | <p>Supervises the management of significant risk in the Bank's operations, is responsible for the risk management system comprising:</p> <ul style="list-style-type: none"> the Bank's lending policy; the loan portfolio quality; credit risk; market risk; operational risk; coordinating activities related to the implementation at the Bank of the regulatory requirements from the area of risk management, including the recommendations of supervision authorities. <p>Responsible for the adjustment of the organizational structure of the Bank to the size and risk profile of the Bank. She is a member of the Management Board to whom infringements and violations of the applicable laws and procedures and ethical standards in force at the Bank can be anonymously reported.</p> |
| Witold Zieliński <i>Vice-President of the Management Board</i> | <p>Oversees the area of accounting and financial reporting, including financial control, is responsible for management accounting, bookkeeping, drafting accounting principles, coordinating activities related to the implementation at the Bank of the requirements arising from the provisions of the law, as well as regulatory resolutions and recommendations in the area of capital adequacy.</p> <p>Also responsible for the current cooperation with, and supervision over corporate and commercial banking, including overseeing services for clients from financial institutions sector, ensures the implementation in of operational risk management rules related to the activities undertaken at the organizational units overseen.</p> |
| Katarzyna Majewska <i>Member of the Management Board</i> | <p>Responsible for: operations and technology, real estate management and administration.</p> <p>Ensuring that the principles of operational risk management associated with the activities undertaken are in place at the organizational units overseen.</p> |
| Czesław Piasek <i>Member of the Management Board</i> | <p>Responsible for transactional banking, including:</p> <ul style="list-style-type: none"> cash management products; trade finance products; cash products; liquidity management products. <p>In addition, he is responsible for the supervision of EU programs, and for overseeing, within the framework of functional ties, services for the public sector. He ensures that the principles of operational risk management associated with the activities undertaken are in place at subordinated organizational units.</p> |

The Management Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Bylaws of the Management Board. The Bylaws of the Bank's Management Board set forth the scope and procedure of the Management Board's proceedings as well as the procedure for the adoption of resolutions.

In 2016, the following committees operated within the Bank's Management Board:

- 1) Assets and Liabilities Management Committee (ALCO);
- 2) Equity Investment Committee;
- 3) Risk and Capital Management Committee;

4) Consumer Banking Risk Committee.

Meetings of the Management Board are convened and chaired by the President of the Management Board. The President of the Management Board may establish fixed dates for the meetings.

The Corporate Services Office in the Corporate Communication and Marketing Department ("Corporate Services Office") provides organizational support to the Management Board.

The attendance of members of the Management Board at its meetings is obligatory. Any expected absence of the member of the Management Board at the meeting should be reported to the Corporate Services Office and must be justified. In addition to members of the Management Board, meetings may be attended by:

- 5) Corporate Services Office Head or a designated person;
- 6) Head of Compliance;
- 7) Head of Legal.

The Head of Internal Audit and the Head of Compliance attend the meetings of the Management Board if the agenda covers the internal control system, the internal audit function, the compliance function or issues related to the Company's internal controls. Upon the motion of members of the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The chair of the meeting may decide that the meeting is to take place without the participation of parties not being members of the Management Board.

For resolutions adopted by the Management Board to be valid, the presence of at least half of the members at the meeting is required. Resolutions of the Management Board are passed by the absolute majority of votes.

The Management Board adopts resolutions in an open ballot. The chair of the meeting may order a secret ballot on his/her own initiative or upon a motion of a member of the Management Board. A resolution of the Management Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

In justified cases, resolutions may be adopted by the Management Board in a circular (written) procedure pursuant to a decision of the President of the Management Board or the member of the Management Board replacing the President. Draft resolutions to be taken in a circular procedure are presented for approval of all members of the Management Board and have binding effect after their signing by an absolute majority of the members of the Management Board, including the President of the Management Board or the member of the Management Board replacing the President. The date of entry into force of a resolution is the date of its signing by the Member of the Management Board putting signature under the resolution already signed by at least half of the members of the Management Board. If at least one of the members of the Management Board raises objection as to deciding in a circular procedure, the draft resolution should be submitted to the next meeting of the Management Board. A resolution may be adopted in a circular procedure provided that all members of the Management Board are notified of its adoption. A resolution adopted in a circular procedure constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

With the consent of the President of the Management Board, the members of the Management Board absent at the meeting may participate in the meeting and vote by means of direct communication at a distance in a way that allows simultaneous communication in real time and mutual identification between all members of the Management Board participating in the meeting or voting (e.g. video conferencing, teleconference).

Meetings of the Management Board are recorded. Minutes are taken by the Corporate Services Office. Minutes of the Management Board meetings should include:

- 1) the agenda;
- 2) the first and last names of attendees;
- 3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
- 4) texts of resolutions adopted;
- 5) the number of votes cast for a particular resolution and dissenting opinions;
- 6) the name of the entity or organizational unit or the first and last name of the person in charge of implementation of the resolution; and
- 7) resolution implementation deadline.

The minutes are signed by all members of the Management Board attending the meeting, immediately after they have received the document.

The Management Board provides the Supervisory Board with the following financial information:

- 1) upon preparation, but not later than 30 (thirty) days from each month-end, monthly and periodical (covering the period from the beginning of the year to the end of the preceding month) financial information, compared with the budget adopted in the annual plan and in relation to the previous year;
- 2) immediately upon preparation, but not later than 120 (one hundred and twenty) days after each financial year-end, annual separate and consolidated financial statements drawn up in accordance with the International Financial Reporting Standards and audited by the Company's statutory auditor;
- 3) immediately upon preparation but in each case not later than by the end of each year, the draft annual plan for the following financial year; and
- 4) immediately, other available financial data related to the Company's operations and financial position as well as the

operations and the financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

12.2 Supervisory Board

The Supervisory Board of the Company is composed of five to twelve members, each of whom is appointed by the General Meeting for a term of three years. In accordance with Article 14.2 of the Articles of Association, the Extraordinary General Meeting of the Bank determined in Resolution No. 6 of 5 December 2006 that the minimum number of members of the Supervisory Board is 8. At least half of the members of the Supervisory Board should be of Polish nationality. The Supervisory Board includes independent members.

As at the day of signing this Report on Activities, the composition of the Company's Supervisory Board was as follows:

| Member of the Supervisory Board | Professional experience |
|---|--|
| Andrzej Olechowski <i>Chairman of the Supervisory Board</i> | <p>Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of P4 Sp. z o.o. and of the Advisory Committee of Macquarie European Infrastructure Funds as well as a member of the Board of Trustees, European Council on Foreign Relations. Previously, he was the Minister of Finance and the Minister of Foreign Affairs of the Republic of Poland. He was also a candidate for the office of the President of the Republic of Poland. He is a member of a number of non-governmental organizations, among others, the Chair of the Polish Group of the Trilateral Commission. He is the author of numerous publications on international trade and foreign policy. He holds a PhD and teaches at the Vistula Academy of Finance and Business.</p> <p>In the years 1991–1996 and 1998–2000, he already served as the Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. He was reappointed to the Supervisory Board on 25 June 2003. Chair of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 23 July 2012.</p> |
| Shirish Apte <i>Member of the Supervisory Board</i> | <p>Mr. Shirish Apte was the Co-Chairman, Citi Asia Pacific Banking. In the years 2009–2011, he served as the Head of the Asia-Pacific Region (CEO, Citi Asia Pacific), being responsible for South Asia including such countries as Australia, New Zealand, India and the countries belonging to the Association of South-East Asian Nations (ASEAN). He was a member of the Citi Executive Committee and Operating Committee.</p> <p>Mr. Shirish Apte has worked at Citi for over 32 years. He was, among others, CEO of the Central and Eastern Europe, Middle East and Africa (CEEMEA) Region, and earlier as the Country Manager he was responsible for Citi's operations in Poland, and was Vice-President of Bank Handlowy w Warszawie S.A. In 1993, Mr. Shirish Apte moved from India to London where he assumed the position of Senior Risk Manager in the CEEMEA Region. Then he was appointed Head of Corporate Finance and Investment Bank in the CEEMEA Region, including India.</p> <p>Mr. Shirish Apte is a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and holds a BA degree in Commerce. Mr. Shirish Apte also has an MBA from London Business School.</p> |
| Igor Chalupec <i>Member of the Supervisory Board</i> | <p>Mr. Igor Chalupec is a manager and financier. He is currently the CEO of the ICENTIS Capital company, which specializes in capital market transactions, and the CEO of RUCH S.A., one of the largest press distributors in Poland. From 2004 to 2007, he served as President of the Management Board of PKN ORLEN S.A. – the largest company from the refinery and petrochemical sector in Central Europe. From 2003 to 2004, he held the position of Deputy Minister of Finance and Deputy Chair of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in Brussels. From 1995 to 2003, he was Vice President of the Management Board of Bank Pekao S.A. (which belongs to the UniCredit Group). He was the founder and CEO (from 1991 to 1995) of Centralny Dom Maklerski Pekao S.A., the largest brokerage firm in Poland; for many years (from 1995 to 2003) he served as member of the Warsaw Stock Exchange. Mr. Igor Chalupec has sat on the Supervisory Boards of Bank Handlowy S.A. (Citi Group) since 2009 and of Budimex S.A. (Ferrovia Agroman Group) since 2007. He is also member of the Polish Business Council, the Program Board of the Economic Forum (Polish Economic Forum in Krynica), the Program Board of the Executive Club, member of the Board of the Institute of Public Affairs Foundation, member of the Board of the Polish Institute of Directors, member of the Chapter of the Lesław A. Paga Award, Vice President of the Polish Bridge Union and member of the Board of the Women's Workshop Foundation. He is the Founder and Chair of the Board of the Foundation of the Evangelical Educational Association. He is the co-author of <i>Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN</i> ["Russia, Oil, Politics. The Largest Investment by PKN ORLEN"] – a book about the purchase of the Mažeikių refinery in Lithuania. Mr. Igor Chalupec has received numerous awards and honors including the Manager Award (in 2012), the Lesław A. Paga Award (in 2007), the WEKTOR award (in 2006) and the HERMER award (in 1996).</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 18 June</p> |

| Member of the Supervisory Board | Professional experience |
|--|---|
| Jenny Grey <i>Member of the Supervisory Board</i> | <p>2009.</p> <p>In February 2016, Ms. Jenny Grey was appointed Head of Human Resources at Citi EMEA. Earlier, from October 2012, Ms. Grey served as EMEA Head of Public Relations and was responsible for protecting and enhancing Citi reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development.</p> <p>Ms. Jenny Grey has 24 years of experience in the field of communications. She joined Citi in October 2012, after four years of working for the British government – most recently at the headquarters of the British Prime Minister as Executive Director for Government Communications. She was Head of Profession, overseeing a staff of 5,000 who were tasked with communication across the public sector.</p> <p>Previously, she had worked in the public sector where she held the position of Director for Communications and Social Marketing, e.g. in the British National Health Service and on the Audit Committee. She was also Director of Corporate and International Affairs at Cancer Research UK, the largest charitable foundation in the United Kingdom, where she established the first unit responsible for public policy and support.</p> <p>Ms. Jenny Grey began her professional career in advertising and then became a public relations advisor, specializing in the field of reputation management and crisis management. She advised many international clients, including corporations such as McDonald's, Toyota, BP or Allied Domecq.</p> <p>She graduated in Social Psychology from the London School of Economics and holds a honors degree in English Language and English Literature from Durham University.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.</p> |
| Mirosław Gryszka <i>Member of the Supervisory Board</i> | <p>Mr. Mirosław Gryszka began his career in the Zamech company in Elbląg, which was acquired by ABB in 1990. Since then, he has held a number of management functions; from 1997, he was President of the Management Board and Country Manager of ABB in Poland. On 1 September 2013, he was appointed to the newly created position of Cluster Manager within the ABB Group with responsibility for Russia, the Baltic countries, Central Asia and the Caucasus.</p> <p>During Mr. Mirosław Gryszka's term of office as President of the Management Board, the national ABB organization consisting of several companies went through a process of consolidation and recorded a steady increase in turnover, becoming a leading manufacturer of power engineering and automation solutions in the Polish market. Currently, ABB owns a state-of-the-art scientific and research center in Poland, an IT systems center and six manufacturing plants that manufacture, <i>inter alia</i>, medium and high voltage products, switchgears, transformers, electric motors and power electronics devices. The company employs more than 3,000 staff, of which around 400 work directly on innovative technologies.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 30 June 2000.</p> |
| Marek Kapuściński <i>Member of the Supervisory Board</i> | <p>Mr. Marek Kapuściński graduated from the Foreign Trade Faculty of the School of Planning and Statistics in Warsaw (currently Warsaw School of Economics) and completed SEHNAP/Stern School of Business postgraduate studies at New York University. He worked for Procter & Gamble for 25 years, until September 2016. He contributed to the company's success in the Polish and Central European markets and co-authored many standards for the Polish market after the transformation, e.g. standards for the cosmetics industry, business ethics and social responsibility standards and self-regulation rules in the field of advertising. From July 2011, he was Chief Executive Officer and Vice-President for the nine key P&G markets in Central Europe, and from January 2007 he performed those responsibilities for Poland and the Baltic countries. He was the first Pole and Central European at this management level of the global Procter & Gamble corporation, active member of regional company management and of its Global Business Leadership Council which included all 250 top company managers. He is an experienced CEO and leader, expert in the areas of strategy, innovation and management, an active author of standards for brand management that continuously adapts to new challenges as well as standards for shopper marketing, sales and communication in a digital, omni-channel environment. As the first Pole and Central European at P&G, he was subsequently promoted to the positions of Brand Manager, Marketing Manager and Marketing Director; for 5 years, he was responsible for the development of a number of brands in the Central and Eastern Europe, Middle East and Africa region. He was co-author of the strategy for brands such as Always, Vizir, Ariel, Lenor, Fairy, Pampers, Gillette, Head&Shoulders, Pantene, Blend-A-Med and Old Spice, contributing to their leading market positions. In recognition of his contribution to the building of brands and the authoring of standards and practices for the Polish advertising market, Media Marketing Polska awarded him the title of the "Top Marketer of the Last 20 Years". Lecturer, juror and</p> |

| Member of the Supervisory Board | Professional experience |
|--|---|
| Frank Mannion <i>Member of the Supervisory Board</i> | <p>discussion panel participant. Currently serves on Supervisory Boards of a number of companies and public benefit organizations and advises their Management Boards. Privately, he invests in startups and contributes to the development of young Polish art and culture.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 29 September 2016.</p> <p>Mr. Frank Mannion is the Citi Chief Financial Officer for Europe, the Middle East and Africa (EMEA). He assumed this position in January 2011 and is in charge of the group of over 1,000 employees in the entire Region.</p> <p>Mr. Mannion began his career in Ireland before moving to join PricewaterhouseCoopers in London.</p> <p>Mr. Mannion joined Citi in the UK in 1989 in the Planning and Analysis team. He has held various Finance roles, including Technology Finance Manager and Head of CMB EMEA Product Control. In 2008, he became Citi Regional Franchise Controller in the Region of Europe, Middle East and Africa (EMEA) where he was responsible for a group of more than 800 employees from different areas. Previously, he was in charge of the Control of Products and Regulatory Reporting (Product Control, Controllers and Regulatory Reporting) as CMB EMEA Regional Controller.</p> <p>Frank Mannion graduated from the National University of Ireland in Galway and has a degree in Commerce. He also holds the title of a Chartered Accountant. He lives in London with his family.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 28 June 2010.</p> |
| Anna Rulkiewicz <i>Member of the Supervisory Board</i> | <p>Mrs Anna Rulkiewicz is a graduate of the Faculty of Humanities of the Nicolaus Copernicus University in Toruń. She also graduated in Psychology from the University of Hamburg and was awarded a postgraduate degree from the Polish-French Institute of Insurance at the French Institute. She completed a training cycle, including in the area of management, sales, communication, marketing (including 3-year management studies) under the LIMRA "Marketing Strategies for Executive Advancement" certified program for the insurance industry (LIMRA Executive Development Group). She also completed many courses in management, sales, finance, marketing and banking.</p> <p>Since 2002, Ms. Anna Rulkiewicz has worked at LUX-MED Sp. z o.o. where she initially served as a member of the Management Board, Director of Sales and Marketing. Since 2007, she has been the President of the LUX MED Group. Since the end of 2011 she has also served as the Executive Director of LMG Försäkrings AB whose branch operates in Poland under the brand name LUX MED Ubezpieczenia. She is the President of the Board of the Association of Employers in Private Medicine.</p> <p>Her professional experience also includes, among others, managing (in the years 2001–2002) the Sales and Marketing Division at Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie and Powszechne Towarzystwo Emerytalne/Winterthur where she oversaw the work of the departments of internal sales, external sales, group insurance, marketing and communications. In the years 1998–2001, she worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. Acting as the Director of Group Insurance and Training, she was responsible, among others, for the group insurance segment, including for the creation of services, recruitment system and training management. After being entrusted with the position of the Director of the Corporate Client Segment and being appointed a member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A., she was responsible for the segment of clients from the small business and corporate segments. In the years 1995–1998, she worked at Commercial Union Towarzystwo Ubezpieczeń na Życie S.A. where in her last position she was responsible for the development of group and individual insurance sales under bancassurance arrangements.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 June 2013.</p> |
| Anand Selvakesari <i>Member of the Supervisory Board</i> | <p>Mr. Anand Selvakesari has been with Citi since 1991. Since July 2015, he has been Asia Pacific Head, Consumer Banking. In his current position, he is responsible for the consumer banking and commercial banking area across Asia.</p> <p>Before holding his current position, from December 2013 Mr. Anand Selvakesari was Consumer Business Head in the region that included the countries belonging to the Association of Southeast Asian Nations (ASEAN) and India. In that role, he was responsible for consumer banking in the ASEAN Cluster, which includes Singapore, Malaysia, Indonesia, Philippines, Thailand, Vietnam and India.</p> <p>Earlier, from 2011 to 2013, Mr. Selvakesari was Country Business Manager at Consumer Bank in India, managing consumer banking, credit cards, unsecured loans,</p> |

| Member of the Supervisory Board | Professional experience |
|--|---|
| Stanisław Sołtysiński <i>Member of the Supervisory Board</i> | <p>banking for non-Indian citizens and commercial banking in India. The areas managed by Mr. Anand Selvakesari have become market leaders, enjoying record brand preference among clients and cooperating in the implementation of pioneering solutions with other market leaders.</p> <p>Before taking up his post in India, Mr. Anand Selvakesari was Director of Retail Banking at Citi China from 2008 to 2011. The business managed by Mr. Selvakesari grew several times its original size, becoming the industry leader in innovation and introducing many new products to the market. Mr. Anand Selvakesari was also Director of Retail Banking in Taiwan from 2004 to 2006; for eight years, he fulfilled regional roles in Singapore, working in various positions in the investment banking, wealth management and retail banking areas from 1996 to 2004.</p> <p>Mr. Anand Selvakesari holds an MBA in Finance and Marketing and has a Mechanical Engineering degree – both obtained in India.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2016.</p> |
| Stephen R. Volk <i>Member of the Supervisory Board</i> | <p>Stanisław Sołtysiński is a Professor of Law. Prof. Sołtysiński engages in academic activity as Professor of Law at the Adam Mickiewicz University in Poznań (where he also served as the Dean of the Faculty of Law and Administration). He lectured many times as a visiting professor at the University of Pennsylvania Law School in Philadelphia as well as at the College of Europe in Bruges, Max Planck Institute in Munich and at the Academy of International Law in the Hague. He is a member of many academic associations and organizations. Among others, he is a correspondent member of the Polish Academy of Learning and a member of the Board of Directors of UNIDROIT. He is a co-author of the Commercial Companies Code. Professor Sołtysiński also practises law as a partner in the Spółka Komandytowa "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni law firm [limited partnership].</p> <p>Professor Sołtysiński was appointed to the Supervisory Board of Bank Handlowy w Warszawie S.A. on 26 March 1997 and was the Chair of the Supervisory Board from 30 June 2000 to 20 June 2012. Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 21 June 2012.</p> <p>Mr. Stephen R. Volk holds the function of Vice Chairman of Citigroup Inc. and is responsible for Citigroup Senior Management matters as well as Investment Banking. He is also a member of the Citigroup Executive Committee.</p> <p>Mr. Volk has been with Citigroup since September 2004. Earlier Mr. Volk held the function of Chairman of Credit Suisse First Boston where he worked together with the CEO on company strategic management and key matters related to clients. His professional experience with Credit Suisse First Boston began in August 2001 and before that he worked for Shearman & Sterling, a New York-based law firm, where he had been Senior Partner since 1991. During his career in Shearman & Sterling, Mr. Volk acted as legal counsel to a number of corporations including Citicorp. The firm provided advisory services for Citicorp within a wide range of fields including restructuring of the Citigroup debt portfolio in Latin America. Among some important transactions carried out with substantial participation of Mr. Volk were the following: mergers of Glaxo and SmithKline, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960 after graduating from Dartmouth College and Harvard Law School and became a Partner of this company in 1968.</p> <p>Mr. Volk is a Director of Continental Grain Company and a former Director of Consolidated Edison, Inc. as well as Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Dean's Advisory Board of Harvard Law School and a fellow of the American Bar Foundation.</p> <p>Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 20 November 2009.</p> |

In 2016, the Supervisory Board also included Mr. Anil Wadhvani who resigned from the function as of 20 June 2016, Mr. Dariusz Mioduski who resigned from the function as of 30 June 2016 and Mr. Zdenek Turek who resigned from the function as of 31 December 2016.

The Supervisory Board of the Company operates on the basis of generally applicable regulations, the Company's Articles of Association as well as the Bylaws of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Apart from the rights and responsibilities stipulated in the applicable laws, the powers of the Supervisory Board include:

- 1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;
- 2) appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board;
- 3) determination of the terms and conditions of employment contracts or other legal relationships between members of the Management Board and the Company;

- 4) granting consent to the opening or closing of foreign branches;
- 5) adoption of the Bylaws of the Supervisory Board as well as the approval of:
 - a) Bylaws of the Management Board of the Company;
 - b) rules for the management of special funds created from the net profit.
- 6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets whose value exceeds one tenth of the Company's share capital;
- 7) appointing the entity authorized to audit financial statements to audit or review the financial statements;
- 8) granting consent to the hiring and dismissal of the Head of Internal Audit and the Head of Compliance upon the motion of the Management Board;
- 9) any benefits provided by the Company and its related parties to members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or the Management Board as well as their related parties;
- 10) supervision over the implementation and monitoring of the Bank's management system, including in particular supervision over compliance risk management, as well as evaluation, at least once a year, of the adequacy and effectiveness of this system;
- 11) approval of the Bank's operational strategy and the principles of prudent and stable management of the Bank;
- 12) approval of the fundamental organizational structure of the Bank, adjusted to the size and profile of the risk incurred and determined by the Bank's Management Board;
- 13) acceptance of the general level of the Bank's risk;
- 14) approval of the principles of the Bank's compliance risk policy;
- 15) approval of the Bank's internal procedures concerning internal capital assessment, capital management and capital planning processes;
- 16) approval of the Bank's information policy;
- 17) approval of the internal control procedure;
- 18) approval of the general rules of the policy governing the variable components of remuneration for persons in managerial positions and performing periodic reviews of those rules;
- 19) approval of the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
- 20) approval of the list of managerial positions in the Bank which have a significant impact on the risk profile in the Bank.

Pursuant to the Banking Act, the Supervisory Board approves the internal division of competences in the Management Board and the remuneration policy for the Company.

Additionally, the Supervisory Board is responsible for suspending individual or all members of the Management Board for material reasons as well as delegating members of the Supervisory Board to temporarily (for a period not exceeding three months) act in the capacity of members of the Management Board who have been dismissed, submitted a statement of resignation or are incapable of performing their duties for any other reasons.

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively; each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least once a quarter. Such meetings are convened by Chair of the Supervisory Board and, in his/her absence, by one of Vice-Chairs of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. The Chair of the Supervisory Board may determine fixed dates for the Supervisory Board's meetings. Notices convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

The Supervisory Board meets on the date of the General Meeting which approves the Management Board's report on the activities of the Company as well as the financial statements for the last full financial year of performing the function of member of the Management Board in which the terms of office of members of the Management Board expire, for the purpose of electing new members of the Management Board of the Company.

On an annual basis, the Supervisory Board adopts a resolution regarding the report on the activities prepared by the Supervisory Board, presenting the Supervisory Board's evaluation of the Company's position, evaluation of the Supervisory Board's activities, evaluation of the internal control system and the significant risk management system, as well as the results of the evaluation of the financial statements of the Company, including motions of the Management Board as to profit distribution. The above document is submitted by the Supervisory Board to the General Meeting for approval.

Members of the Supervisory Board may participate in the adoption of resolutions by casting their vote in writing or through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in a circular procedure or by means of direct communication at a distance.

Meetings of the Supervisory Board are chaired by the Chair of the Supervisory Board and, in his/her absence, by one of the Vice-Chairs of the Supervisory Board. If both the Chair and Vice-Chair are absent, the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

For resolutions adopted by the Supervisory Board to be valid, the presence of at least half of the members at the meeting is required. Resolutions of the Supervisory Board are passed by the absolute majority of votes. Without the consent of the majority of independent members of the Supervisory Board, no resolutions should be adopted with respect to:

- 1) any benefits provided by the Company or its related parties to members of the Management Board;
- 2) granting consent to entering into a material agreement by the Company or its subsidiary and the Company's related party, member of the Supervisory Board or the Management Board or their related parties;
- 3) appointment of the statutory auditor responsible for auditing the financial statements of the Company.

Each member of the Supervisory Board is obliged to immediately inform the remaining members of a conflict of interests and refrain from taking part in the discussion as well as voting on a resolution with respect to which the conflict has arisen.

The Supervisory Board adopts resolutions in an open ballot, except for the appointment and dismissal of the President of the Management Board of the Company in a secret ballot as well as the appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board. The chair of the meeting may decide upon a secret ballot with respect to other issues on his/her own initiative or upon a motion of a member of the Supervisory Board.

A resolution of the Supervisory Board enters into force as of the date of its adoption, unless a later effective date is specified therein.

Minutes are taken from the meetings of the Supervisory Board and should include the agenda, the first and last names of the present members of the Supervisory Board, the number of members absent from the meeting with the reasons for their absence, the number of votes for individual resolutions, dissenting opinions as well as the full text of resolutions adopted. The list of members of the Supervisory Board attending the meeting as well as other participants constitutes an appendix to the minutes. The minutes are signed by all members of the Supervisory Board attending the meeting. The minutes from the meetings of the Supervisory Board for the whole term of its office are collected in a separate file stored by the Company.

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for meetings concerning directly the Management Board. Upon the motion of the Chair of the Supervisory Board or upon the motion of the Management Board of the Company, meetings may be attended by the Company's employees or third parties competent with regard to a particular matter. The Head of Internal Audit may participate in meetings of the Supervisory Board at which issues related to the Company's internal controls are considered. In specially justified circumstances, the Chair of the Supervisory Board may decide to convene a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any preceding regulations providing otherwise.

Supervisory Board Committees

Standing Committees of the Supervisory Board include:

- 1) Audit Committee; and
- 2) Remuneration Committee;
- 3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's governing bodies as well as the streamlining of their functioning. The Committee is composed of: Shirish Apte as the Chair and Stanisław Sołtyński as the Deputy Chair, and Igor Chalupec, Jenny Grey, Mirosław Gryszka, Marek Kapuściński, Dariusz Mioduski (until 30 June 2016), Frank Mannion, Andrzej Olechowski, Anna Rulkiewicz, Anand Selvakesari (from 29 September 2016), Zdenek Turek and Stephen R. Volk and Anil Wadhvani (until 20 June 2016) as Committee members.

Audit Committee

The Audit Committee is composed of:

- 1) Mirosław Gryszka – Chair of the Committee;
- 2) Frank Mannion – Deputy Chair of the Committee;
- 3) Shirish Apte – Member of the Committee;
- 4) Igor Chalupec – Member of the Committee;
- 5) Marek Kapuściński – Member of the Committee;
- 6) Anna Rulkiewicz – Member of the Committee.

The Audit Committee is a standing committee of the Company's Supervisory Board.

The roles and responsibilities of the Audit Committee include monitoring financial reporting, monitoring the effectiveness of internal control and internal audit systems, monitoring risk management, monitoring audit performance and monitoring the independence of the auditor.

Members of the Committee perform their roles pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to

shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings.

The Audit Committee should consist of at least two independent members, one of whom performs the function of the Committee Chair. At least one member of the Committee should meet the independence requirements referred to in Article 56.3.1, 56.3.3 and 56.3.5 of the Act on Auditors, Their Self-government and the Entities Authorized to Audit Financial Statements, and on Public Supervision, as well as hold qualifications within the field of accounting or financial auditing.

Audit Committee meetings are convened by the Committee Chair on his/her own initiative or upon the motion of a Committee member. Should the Committee Chair be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chair. Meetings are also convened upon the motion of a Committee member or the Chair of the Supervisory Board.

A notice convening the meeting, including the agenda and materials subject to discussion, is distributed to members of the Audit Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). Meetings of the Audit Committee are held at least four times per year on dates determined by the Chair upon consultation with the Vice-Chair of the Committee.

At least once every year, the Audit Committee meets:

- 1) with the Head of Internal Audit, without the participation of management;
- 2) with the statutory auditor of the Company, without the participation of management;
- 3) exclusively with the participation of members of the Audit Committee.

At its discretion, the Audit Committee may also meet with individual executives of the Company.

The agenda of the Audit Committee includes standing items as well as issues considered upon motions. The list of standing items considered at the Committee's meetings is determined in a resolution adopted by the Committee. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

Based on the materials received, the Secretary of the Audit Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chair and Vice-Chair for approval. The draft agenda approved by the Committee Chair and Vice-Chair is distributed together with materials to Committee members.

All members of the Audit Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly seven days prior to the specified meeting date. The Committee has the right to consult advisors and invite the Company's employees or third parties to its meetings to discuss or examine the issues considered by the Committee. Parties invited by the Committee Chair or Vice-Chair may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chair of the Audit Committee. In the Chair's absence, meetings are chaired by the Deputy Chair. Upon consultation with the Vice-Chair of the Committee, the Chair may remove an issue from the agenda, in particular for the purpose of supplementing a motion or obtaining an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

Upon consultation with the Deputy Chair of the Committee, the Chair of the Audit Committee may decide on considering a matter in a circular procedure.

Remuneration Committee

The Remuneration Committee is composed of:

- 1) Andrzej Olechowski – Chair of the Committee;
- 2) Jenny Grey – Deputy Chair of the Committee;
- 3) Stanisław Sołtysiński – Member of the Committee;
- 4) Zdenek Turek – Member of the Committee.

In 2016, Members of the Remuneration Committee included Mr. Zdenek Turek (until 31 December 2016).

The Remuneration Committee is a standing committee of the Company's Supervisory Board.

The Remuneration Committee is an advisory body of the Supervisory Board and Committee members perform their functions pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings.

The powers and responsibilities of the Remuneration Committee include:

- 1) evaluating the remuneration paid to members of the Company's Management Board against market criteria;
- 2) evaluating the remuneration paid to members of the Company's Management Board with respect to the scope of duties of members of the Company's Management Board and their performance;
- 3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of

the Company's Management Board each time prior to its determination or modification;

- 4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its executives not being members of the Management Board;
- 5) issuing opinions on the policy governing the variable components of remuneration for persons in managerial positions in the Bank;
- 6) issuing opinions on and monitoring of the variable components of remuneration for persons in managerial positions in the Bank related to risk management and compliance of the Bank with legal provisions and internal regulations.

The Remuneration Committee consists of at least 3 (three) members of the Supervisory Board, including 1 (one) independent member of the Supervisory Board. Committee members, including its Chair and Vice-Chair, are elected by the Supervisory Board in an open ballot.

Remuneration Committee meetings are convened by the Committee Chair on his/her own initiative or by the Vice-Chair if the Committee Chair is unable to convene a meeting for any reason whatsoever. Meetings are also convened upon the motion of a Committee member or the Chair of the Supervisory Board. Meetings of the Remuneration Committee are held at least two times a year on dates determined by the Chair of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motions.

Based on the materials received, the Secretary of the Remuneration Committee prepares a draft agenda, including a list of invitees, and submits it to the Committee Chair for approval.

All members of the Remuneration Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly seven days prior to the specified meeting date. Parties invited by the Committee Chair, and in particular parties presenting individual issues, participate in the Committee meeting or its relevant part.

Resolutions of the Remuneration Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

The Chair of the Remuneration Committee may decide on considering a matter by circular procedure. A member of the Remuneration Committee voting against may request that a dissenting opinion be included in the minutes.

Minutes are taken from the meetings of the Remuneration Committee. They are signed by the Chair and the Secretary. Minutes from the Committee meeting are acknowledged by the Committee members at the first subsequent meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

- 1) Zdenek Turek – Chair of the Committee;
- 2) Igor Chalupiec – Deputy Chair of the Committee;
- 3) Frank Mannion – Member of the Committee;
- 4) Andrzej Olechowski – Member of the Committee;
- 5) Anand Selvakesari – Member of the Committee;
- 6) Stephen R. Volk – Member of the Committee.

In 2016, Members of the Risk and Capital Committee included Mr. Anil Wadhvani (until 20 June 2016), Mr. Dariusz Mioduski (until 30 June 2016) and Mr. Zdenek Turek – Chair of the Committee (until 31 December 2016).

Members of the Committee perform their roles specified in its Bylaws pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each subsequent calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to shareholders through their publication on the Bank's website. During the first subsequent meeting of the Supervisory Board, the Committee provides the Supervisory Board with a report on every meeting of the Committee as well as recommendations of the Committee discussed at such meetings. The Committee's Bylaws are published on the Bank's website and made available at its registered office.

The Committee is responsible for supervision over the implementation of the risk management system by the Bank's Management Board, the assessment of the adequacy and effectiveness of the risk management system as well as for supervision over the internal capital assessment and capital management process.

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chair. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

Committee meetings are convened by the Committee Chair on his/her own initiative or upon the motion of a Committee member. Should the Committee Chair be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Vice-Chair. Meetings are also convened upon the motion of a Committee member or the Chair of the Supervisory Board.

Meetings of the Committee are held at least on a semi-annual basis on dates determined by the Committee Chair upon consultation with the Vice-Chair of the Committee.

A notice convening the meeting, including the agenda and materials subject to discussion, is distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice

should include the agenda as well as the materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motions. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

All members of the Committee are obliged to participate in its meetings.

The Committee has the right to consult advisors and invite the Bank's employees or third parties to its meetings to discuss or examine the issues considered by the Committee.

Parties invited by the Committee Chair or Vice-Chair may participate in the meeting or its relevant part.

Meetings of the Committee are chaired by the Chair of the Audit Committee. In the Chair's absence, meetings are chaired by the Deputy Chair.

Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Deputy Chair of the Committee, the Committee Chair may decide on considering a matter in a circular procedure.

Minutes are taken from the Committee's meetings.

13. Good practices in Dom Maklerski Banku Handlowego S.A. and in Handlowy-Leasing Spółka z o.o. - companies belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) and Handlowy-Leasing Spółka z o.o. (HL) are not public companies, and therefore they are not required to follow the Code of Best Practice for WSE Listed Companies or make any statements in that respect; however, due to their important role in the Group of Companies, the following circumstances should be considered.

DMBH is a member of the Brokerage House Chamber and as such it must follow the Code of Best Practice of Brokerage Houses developed by the Brokerage House Chamber. The Code does not regulate the question of corporate governance, but primarily concerns business secret protection rules, relationships with clients and conduct of brokerage house staff, including relationships with other brokerage houses. DMBH is an entity that is subject to the Act on Trading in Financial Instruments and therefore, apart from the Commercial Companies Code, it follows certain corporate governance rules resulting from the Act and its secondary regulations; among other things, pursuant to Article 103 of the aforementioned Act the Management Board should consist of at least two members with university degrees, at least three years of working experience in financial institutions and favorable references in connection with the functions performed. The Polish Financial Supervision Authority is informed by DMBH on changes in the Management Board. In addition, DMBH must send mandatory reports to the Polish Financial Supervision Authority (including reports on any changes in the composition of the Management Board, or reports on resolutions of the General Meeting). The aforementioned Act also regulates the issue of purchasing shares in the brokerage house. It stipulates that the head office of the brokerage house must be in Poland. Since 1 January 2015, DMBH has been subject to the Corporate Governance Principles for Supervised Institutions ("CGPs") adopted by PFSA resolution of 22 July 2014. CGPs are a set of rules governing the internal and external relations of institutions supervised by the PFSA including their relations with shareholders and clients, their organization, the internal supervision function and key internal functions and systems as well as statutory bodies and their cooperation. CGPs are meant to improve the level of corporate governance at financial institutions and to increase their transparency which is supposed to strengthen confidence in the financial market in Poland. On 23 December 2014, the Management Board of DMBH declared DMBH's willingness to comply with CGPs, and the Supervisory Board approved compliance with the those CGPs that are within the competences of the Supervisory Board.

Three CGPs are not applied by DMBH:

- a) para. 11, subpara. 2 (related party transactions) – this principle will not be applied in respect of agreements relating to current operating activities;
- b) para. 22, subparas. 1 and 2 (independence of members of the supervisory body) – these principles are not applied, taking into account the current composition of the Supervisory Board.

Handlowy-Leasing Spółka z o.o. (HL) operates as a leasing company. The leasing industry associated in the Polish Leasing Association has not developed any Best Practices applicable to leasing companies.

HL operates in accordance with the Commercial Companies Code. HL has a Supervisory Board despite the fact that there is no relevant statutory requirement, in order to ensure continuous supervision of the Company's operations.

XI. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

1. Information regarding the remuneration policy

Remuneration policies concerning persons holding key functions, including persons who have a significant impact on the risk profile at Bank Handlowy w Warszawie S.A. (the Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) (a brokerage house which is the Bank's subsidiary) were approved by Resolution of 3 December 2015 of the Bank's Supervisory Board and by Resolution of 28 December 2015 of the DMBH Supervisory Board respectively (hereinafter referred to as the Remuneration Policy). The Remuneration Policy sets remuneration rules for members of the Management Board and other persons holding key functions, including persons who have a significant impact on the risk profile of the Bank and DMBH respectively. The policy implements provisions on remuneration rules at banks and brokerage houses included in applicable laws and in the Corporate Governance Rules for Supervised Institutions adopted by the Polish Financial Supervision Authority.

The rules concerning variable remuneration at the Bank and at DMBH are described in detail in the "Policy Concerning

Variable Components of Remuneration for Persons Holding Managerial Positions at Bank Handlowy w Warszawie S.A.” established by the Management Board and approved by the Bank’s Supervisory Board on 26 September 2012 and in the “Policy Concerning Variable Components of Remuneration for Persons Holding Managerial Positions at Dom Maklerski Banku Handlowego S.A.” established by the DMBH Management Board and approved by the DMBH Supervisory Board on 29 March 2012 as amended and approved by way of Resolutions of the Supervisory Board of the Bank and DMBH (hereinafter referred to as the Variable Remuneration Policy).

Variable remuneration is granted respectively by the Supervisory Board for the Members of the Bank’s Management Board and by the Management Board for other persons covered by the “Policy Concerning Variable Components of Remuneration for Persons Holding Managerial Positions at Bank Handlowy w Warszawie S.A.”. At the Bank, the Supervisory Board Remuneration Committee has also been established, which recommends and assesses the amounts of, and the terms for granting, variable remuneration for the persons covered by the Policy. The Remuneration Committee gives opinions on, and monitors the variable components of remuneration for persons covered by the variable remuneration policy who work in positions related to risk management, to the Bank’s compliance with applicable laws and internal regulations and to internal audit.

Additionally, following each Policy amendment, the Supervisory Board Remuneration Committee issues an opinion on the amendments, including the amount and components of remuneration while being guided by prudential and stable risk, capital and liquidity management and special commitment to the Bank’s long-term welfare and interests of its shareholders, investors and stakeholders.

The philosophy underlying the remuneration for the persons covered by the Variable Remuneration Policy adopted by the Group is as follows: the remuneration of individual employees differs based on financial or non-financial criteria such as their approach to taking risks and ensuring compliance with applicable laws, in order to reflect their current or future work performance and to supplement effective risk control mechanisms by reducing incentives to take reckless risks for the Group and its operation and by rewarding well-judged balance between risk and the rate of return. According to this philosophy, the payment of variable remuneration to the persons covered by the Variable Remuneration Policy is dependent on both short-term and long-term assessment of their individual performance and the financial results of the Bank (or respectively of DMBH) or of the relevant business unit; the persons responsible for control functions are not assessed in terms of financial results. The assessment of the Bank’s or DMBH’s results is based on data for three financial years, which takes into account the business cycle and the risk inherent in the Group’s business. In the case of persons employed for less than three years, the assessment of the effects of their work at the Bank or DMBH takes into account the data from the time when their employment started. Variable remuneration for the work performed in 2016, granted on 16 January 2017, was divided into the current and deferred portions. The deferred portion consists of the short-term portion, rights to which may vest after a 6-month deferral period, and the long-term portion, which is divided into three tranches vesting in 2018, 2019 and 2020.

The vesting of individual tranches requires approval respectively by the Supervisory Board with respect to the Management Board and by the Management Board with respect to other employees in each case.

At least 50% of variable remuneration should be awarded in the form of non-cash instruments whose value is closely linked to the Bank’s or DMBH’s financial results. This condition is fulfilled by the phantom shares used by the Group, whose value will fluctuate depending on the market value of the Bank’s shares. The remainder of the variable remuneration is a cash award; deferred tranches of the award will include interest for the period from the granting until the disbursement of the remuneration portion in question.

During the deferral period persons who receive part of their remuneration as phantom shares are entitled to receive dividend equivalents where dividends are approved and paid to holders of ordinary shares in the Bank, in accordance with Variable Remuneration Policy provisions.

Irrespective of changes in the value of deferred variable remuneration associated with fluctuations in the price of the Bank’s shares or accrued interest, the amount of the deferred portion of the award disbursed may be reduced partly or completely if the Supervisory Board or respectively the Management Board determines that:

- the Eligible Persons have been granted Variable Remuneration on the basis of the Bank’s substantially incorrect financial statements; or
- the Eligible Persons have knowingly engaged in providing substantially incorrect information regarding the Bank’s financial statements; or
- the Eligible Persons have substantially exceeded any risk limits established or adjusted by persons holding senior managerial positions or by persons responsible for risk management; or
- the Eligible Persons have grossly breached their professional obligations; or
- there has been a substantial deterioration in the financial results of the Bank or a substantial error in risk management.

The vesting of each tranche of the deferred award will depend on the Bank’s or respectively DMBH’s results in the calendar year immediately preceding the date of vesting of each individual tranche (“Performance Year”).

2. Salaries and awards, including bonuses from profit, paid to persons managing and supervising the Bank

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2016:

| PLN'000 | Salaries, awards and short-term benefits | |
|--|--|----------------|
| | Base salaries and awards | Other benefits |
| Sławomir S. Sikora | 2,025 | 328 |
| Maciej Kropidłowski | 1,877 | 196 |
| David Mouillé | 1,562 | 844 |
| Barbara Sobala | 934 | 93 |
| Witold Zieliński | 1,131 | 124 |
| Katarzyna Majewska ⁽¹⁾ | 766 | 449 |
| Czesław Piasek | 1,193 | 121 |
| <i>Former members of the Management Board:</i> | | |
| Brendan Carney ⁽²⁾ | 304 | - |
| Iwona Dudzińska ⁽³⁾ | 122 | 39 |
| Misbah Ur-Rahman-Shah ⁽⁴⁾ | - | 22 |
| Michał H. Mrozek ⁽⁵⁾ | - | 13 |
| | 9,914 | 2,229 |

(1) In employment since 11 January 2016

(2) In employment until 22 June 2015

(3) In employment until 31 July 2015

(4) In employment until 18 March 2014

(5) In employment until 28 February 2011

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2015:

| PLN'000 | Salaries, awards and short-term benefits | |
|--|--|----------------|
| | Base salaries and awards | Other benefits |
| Sławomir S. Sikora | 2,013 | 434 |
| Maciej Kropidłowski | 1,926 | 162 |
| David Mouillé ⁽¹⁾ | 528 | 754 |
| Barbara Sobala | 934 | 94 |
| Witold Zieliński | 1,111 | 128 |
| Czesław Piasek | 1,199 | 126 |
| <i>Former members of the Management Board:</i> | | |
| Brendan Carney ⁽²⁾ | 1,399 | 133 |
| Iwona Dudzińska ⁽³⁾ | 754 | 94 |
| Misbah Ur-Rahman-Shah ⁽⁴⁾ | - | 14 |
| | 9,864 | 1,939 |

(1) In employment since 1 July 2015

(2) In employment until 22 June 2015

(3) In employment until 31 July 2015

(4) In employment until 18 March 2014

"Base salaries and awards" include gross base salary well as awards paid in 2016 and 2015.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of a company car, insurance policy premiums, holiday leave equivalent and any supplementary benefits consistent with the employment contracts of foreign employees.

"Equity awards granted in 2016" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

| PLN'000 | Capital assets granted | |
|---------------------|------------------------|-----------------------------|
| | granted for year 2016 | granted for years 2011-2015 |
| Sławomir S. Sikora | 638 | 2,386 |
| Maciej Kropidłowski | 487 | 464 |

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| PLN'000 | Capital assets granted | |
|--|------------------------|-----------------------------|
| | granted for year 2016 | granted for years 2011-2015 |
| David Mouillé | 218 | - |
| Barbara Sobala | 145 | 153 |
| Witold Zieliński | 236 | 330 |
| Katarzyna Majewska ⁽¹⁾ | - | - |
| Czesław Piasek | 196 | 177 |
| <i>Former members of the Management Board:</i> | | |
| Brendan Carney ⁽²⁾ | 303 | 248 |
| Iwona Dudzińska ⁽³⁾ | 125 | 225 |
| Misbah Ur-Rahman-Shah ⁽⁴⁾ | - | 1,795 |
| Robert Daniel Massey JR ⁽⁵⁾ | - | 207 |
| Sonia Wędrychowicz-Horbatowska ⁽⁶⁾ | - | 138 |
| Michał H. Mrozek ⁽⁷⁾ | - | 77* |
| | 2,348 | 6,200 |

(1) In employment since 11 January 2016

(2) In employment until 22 June 2015

(3) In employment until 31 July 2015

(4) In employment until 18 March 2014

(5) In employment until 19 June 2013

(6) In employment until 13 May 2012

(7) In employment until 28 February 2011

* refers to 2015

"Equity awards granted in 2015" include the value of Citigroup shares and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

| PLN'000 | Capital assets granted | |
|--|------------------------|-----------------------------|
| | granted for year 2015 | granted for years 2009-2014 |
| Sławomir S. Sikora | 651 | 3 329 |
| Maciej Kropidłowski | 559 | 632 |
| Barbara Sobala | 142 | 131 |
| Witold Zieliński | 232 | 337 |
| Czesław Piasek | 198 | 221 |
| <i>Former members of the Management Board:</i> | | |
| Brendan Carney ⁽¹⁾ | 511 | 511 |
| Iwona Dudzińska ⁽²⁾ | 210 | 260 |
| Misbah Ur-Rahman-Shah ⁽³⁾ | - | 4,057 |
| Robert Daniel Massey JR ⁽⁴⁾ | - | 379 |
| Sonia Wędrychowicz-Horbatowska ⁽⁵⁾ | - | 219 |
| | 2,503 | 10,076 |

(1) In employment until 22 June 2015

(2) In employment until 31 July 2015

(3) In employment until 18 March 2014

(4) In employment until 19 June 2013

(5) In employment until 13 May 2012

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2016 and 2015:

| PLN'000 | 2016 | 2015 |
|----------------------------------|--------------|--------------|
| Andrzej Olechowski | 402 | 402 |
| Igor Chalupec | 276 | 276 |
| Mirosław Gryszka | 246 | 246 |
| Marek Kapuściński ⁽¹⁾ | 41 | - |
| Anna Rulkiewicz | 216 | 216 |
| Stanisław Sołtysiński | 216 | 216 |
| Shirish Apte | 246 | 254 |
| Dariusz Mioduski ⁽²⁾ | 126 | 216 |
| | 1,769 | 1,826 |

(1) In employment since 22 September 2016

(2) (2) In employment until 30 June 2016

The remuneration paid and due in 2016 to persons managing subsidiaries amounted to t PLN 4 640 thousand (in 2015: PLN 4,899 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2016 and 2015.

3. Total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2016 is presented in the table below:

| | Shares of Bank Handlowy w Warszawie S.A. | | Shares of Citigroup Inc. | |
|--------------------------|--|---------------------|--------------------------|---------------------|
| | Number of shares (units) | Nominal value (PLN) | Number of shares (units) | Nominal value (PLN) |
| Management Board | | | | |
| Sławomir S. Sikora | - | - | 23,204 | 970 |
| Maciej Kropidłowski | - | - | 803 | 34 |
| David Mouillé | - | - | - | - |
| Barbara Sobala | - | - | 206 | 9 |
| Witold Zieliński | - | - | - | - |
| Katarzyna Majewska | - | - | 29 | 1 |
| Czesław Piasek | - | - | 2,250 | 94 |
| Supervisory Board | | | | |
| Andrzej Olechowski | 2,200 | 8,800 | - | - |
| Shirish Apte | - | - | 143,822 | 6,011 |
| Jenny Grey | - | - | 654 | - |
| Frank Mannion | - | - | 36,024 | 1,506 |
| Anand Selvakesari | - | - | 16,490 | - |
| Zdenek Turek | - | - | 37,552 | 1,569 |
| Stephen R. Volk | - | - | 137,445 | 5,744 |

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2015 is presented in the table below:

| | Shares of Bank Handlowy w Warszawie S.A. | | Shares of Citigroup Inc. | |
|--------------------------|--|---------------------|--------------------------|---------------------|
| | Number of shares (units) | Nominal value (PLN) | Number of shares (units) | Nominal value (PLN) |
| Management Board | | | | |
| Sławomir S. Sikora | - | - | 22,485 | 877 |
| Maciej Kropidłowski | - | - | - | - |
| David Mouillé | - | - | - | - |
| Barbara Sobala | - | - | - | - |
| Witold Zieliński | - | - | 600 | 23 |
| Czesław Piasek | - | - | 901 | 35 |
| Supervisory Board | | | | |
| Andrzej Olechowski | 2,200 | 8,800 | - | - |
| Shirish Apte | - | - | 170,509 | 6,652 |
| Frank Mannion | - | - | 31,809 | 1,241 |
| Zdenek Turek | - | - | 35,397 | 1,381 |
| Anil Wadhvani | - | - | 21,545 | 840 |
| Stephen R. Volk | - | - | 144,190 | 5,625 |

As at 31 December 2016 and 31 December 2015, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

4. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

In terms of employment relationship, there is only one employment agreement, among employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

The management policy of the Bank did not change in 2016. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Agreements concluded with the registered audit company

On 11 March 2016 the Supervisory Board of the Bank appointed the auditor: PricewaterhouseCoopers Sp. z o.o. having its registered office in Warsaw at 14, Al. Armii Ludowej St., registered audit company No. 144, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for 2016. PricewaterhouseCoopers Sp. z o.o. was selected in compliance with the applicable laws and auditing standards.

An audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for years 2013 - 2015 was made by PricewaterhouseCoopers Sp. z o.o.

The auditor's net fees under the agreements (paid or payable) for the years 2016 and 2015 are presented in the table below:

| | For the year | 2016 | 2015 |
|---|--------------|------------|------------|
| <i>PLN'000</i> | | | |
| Bank (the parent company) audit fees (1) | | 369 | 369 |
| Bank (the parent company) review fees (2) | | 153 | 153 |
| Subsidiary companies audit fees (3) | | 178 | 230 |
| Other assurance fees (4) | | 158 | 158 |
| | | 858 | 910 |

(1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2016 signed on 25 May 2016).

(2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2016 signed on 25 May 2016).

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.

(4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.

XIII. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, composed of: Mr. Sławomir S. Sikora, President of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Mr. David Mouillé, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. Witold Zieliński, Vice-President of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board and Mr. Czesław Pasek, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2016 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for 2016 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2016.

Selection of the auditor authorized to audit the financial statements

The entity authorized to audit financial statements PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością, has audited the Annual Stand-Alone Financial Statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December

2015 and was selected in compliance with legal regulations. PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością and the registered auditors auditing the financial statements met the conditions necessary for issuing an impartial and independent auditor's opinion on the audited financial statements consistently with the applicable legal regulations and professional standards.

Other information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2014 item 133, as amended) is included in the Annual Stand-Alone Financial Statements of the Bank.

Signatures of Management Board Members

| | | | |
|---------------|---------------------|--|--------------------|
| 21.03.2017 | Sławomir S. Sikora | President of the Management Board | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | Maciej Kropidłowski | Vice-President of the Management Board | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | David Mouillé | Vice-President of the Management Board | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | Barbara Sobala | Vice-President of the Management Board | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | Witold Zieliński | Vice-President of the Management Board Chief Financial Officer | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | Katarzyna Majewska | Member of the Management Board | |
| Date | Name | Position/function | Signature |
| 21.03.2017 | Czesław Piasek | Member of the Management Board | |
| Date | Name | Position/function | Signature |